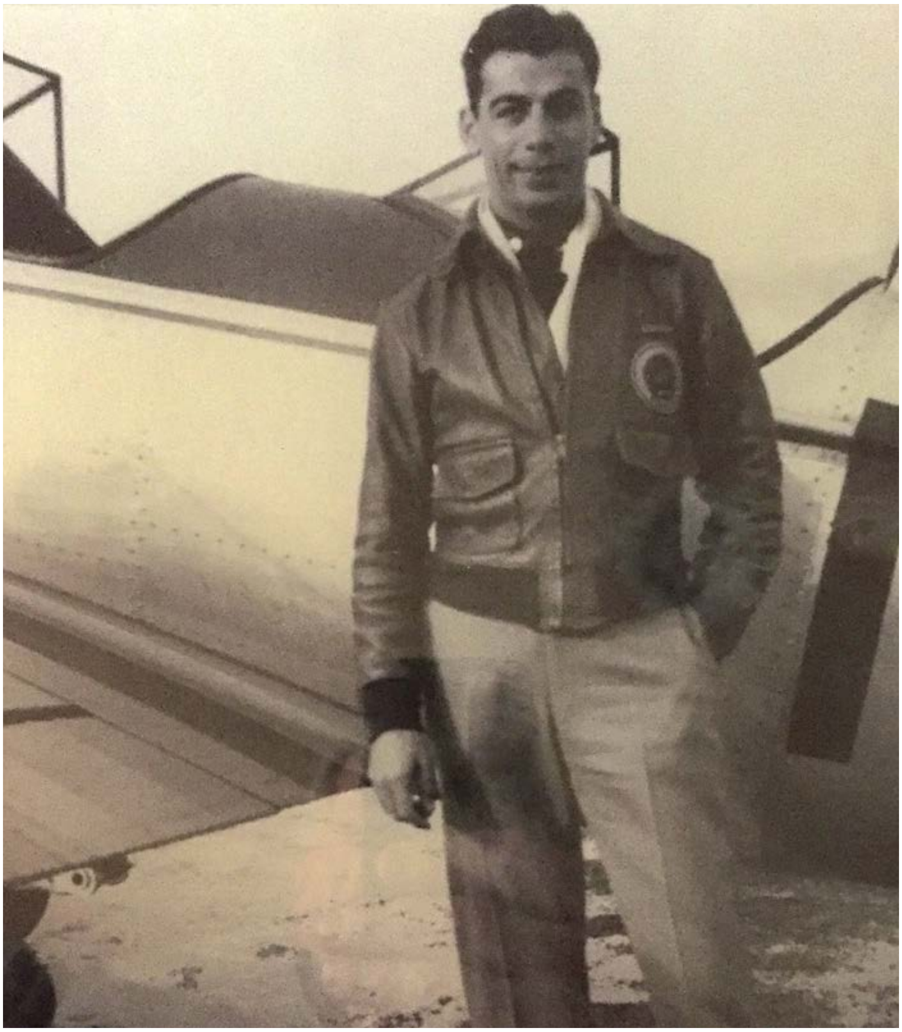
Financial History

The magazine of the Museum of American Finance

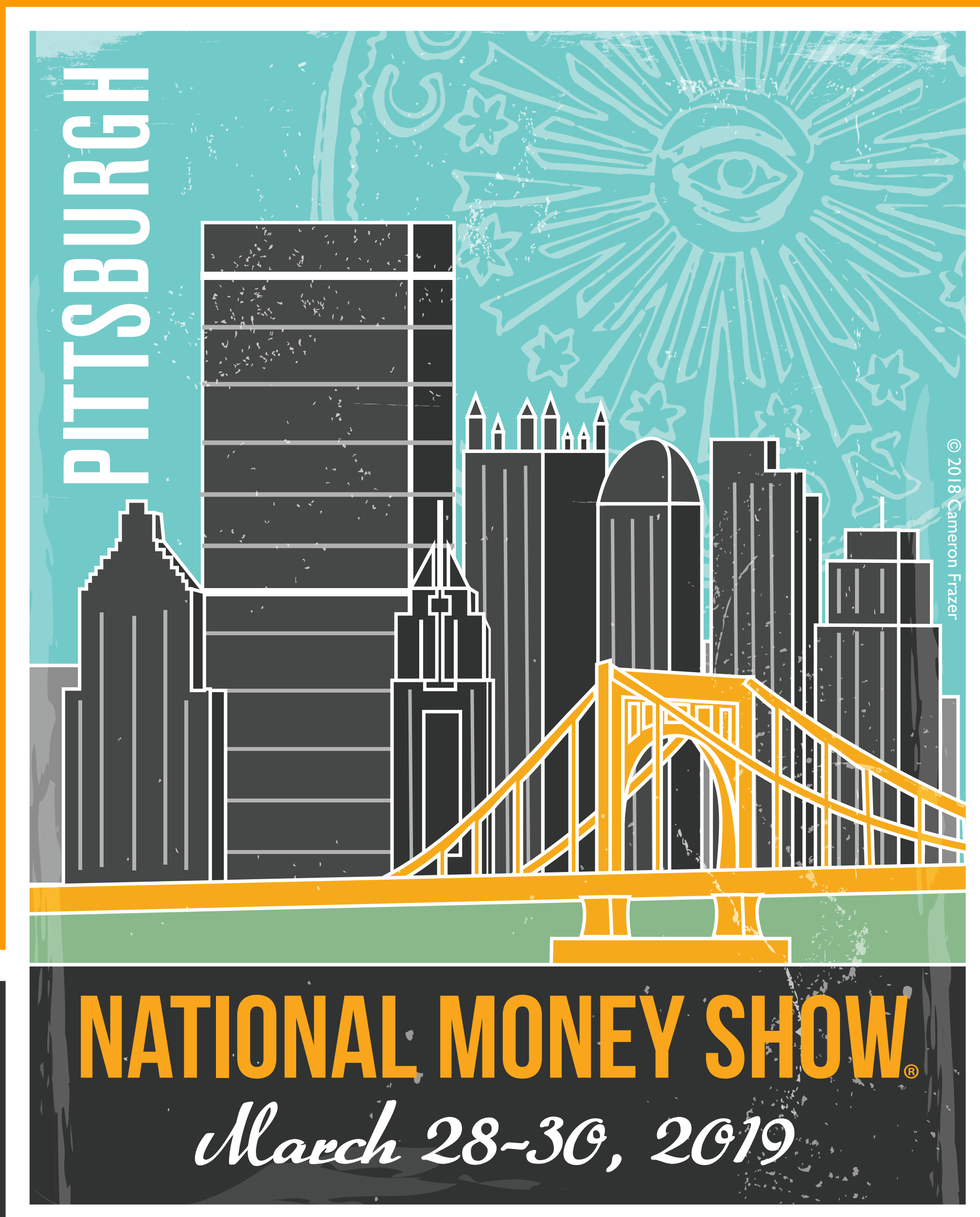


The Gambler: The Rags-to-Riches Story of Deal Maker Kirk Kerkorian

My Father's Business: The Small-Town Origins of Dollar General

The History and Rise of Trading Cards as a Tradable Asset Class

ISSUE 126 | SUMMER 2018


PITTSBURGH
© 2018 Cameron Frazer
NATIONAL MONEY SHOW®
March 28-30, 2019

FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

in association with the Smithsonian Institution

Issue 126 • Summer 2018
(ISSN 1520-4723)

Financial History is the official membership magazine of the Museum of American Finance.

MUSEUM OF AMERICAN FINANCE

Smithsonian Affiliate

IN THIS ISSUE

FEATURES

Courtesy of Dollar General

Photos by PWCC

IN THIS ISSUE | DEPARTMENTS

ON THE COVER

Kirk Kerkorian poses in front of his plane. See related article, page 20.

Courtesy of Una Davis

MoAF Extends Membership Benefits for Additional Year Due to Flood

Message to Members

David J. Cowen | President and CEO

The Museum continues to manage in the aftermath of the flood in our building that has closed the gallery space since late January. Our staff is hard at work on the many resulting disruptions, from insurance issues to finding alternative space for all of our events—including the Evening Lecture Series and Lunch and Learn Series—as well as the Fall semester of the Museum Finance Academy. We expect to start debris removal shortly so that construction can commence. However, there are still areas of our space that are structurally wet from longer-term problems, and these must be resolved before full construction can happen.

Therefore, we do not have a specific timetable as to when we will be able to re-open, and we appreciate our members' patience. Please note that all Museum members who were current as of January 2018, when the flood occurred, have been extended through the end of the year and will be admitted free of charge to our programs through 2018.

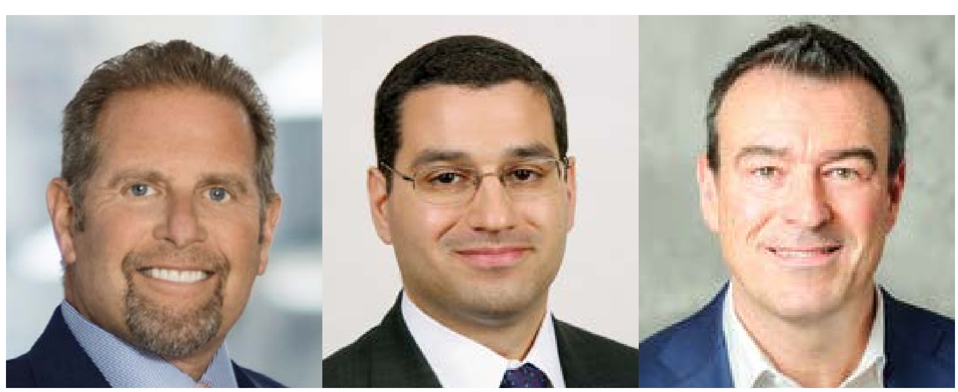
In the meantime, our Strategic Planning Committee continues to work on possibilities for longer-term partnerships, as our lease at 48 Wall Street will expire in 2021. We are open minded and are exploring a range of alternatives, so it is an exciting time for the Museum.

On July 12, we welcomed a full house to the rotunda of Federal Hall National Monument for our annual event commemorating the death of Alexander Hamilton. Following our Hamilton-themed walking tour of the Financial District, noted historian William Hogeland, a contributor to the new book, *Historians on Hamilton*, spoke on "The Hamilton Scheme: Enemies and Allies in the Creation of the American Economy." The program was filmed for C-SPAN American History TV and can now be viewed online.

Planning is well underway for our Fall events season, and registration is now open for many of our September and October events. Programs include an evening lecture in partnership with the Fordham University Gabelli Center for Global Security Analysis with one of Wall Street's most successful investors, Howard Marks, on *Mastering the Market Cycle*, which will be held at Fordham on October 3. Lunch and Learn programs will feature Kim Phillips-Fein on *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* and Roy Germano on *Outsourcing Welfare*, both of which will be held on the fifth floor of 48 Wall Street.

Also this Fall, our Museum will participate in the sixth annual conference of the International Federation of Finance Museums (IFFM), which we co-founded in 2012 in partnership with finance museums in China and Italy, as well as the Global Financial Literacy Excellence Center in Washington, DC. On November 6–7, more than 20 finance museums from around the world will meet in Brussels on the topic of "'Financial Education: Global Challenges & Perspectives."

Finally, I would like to welcome three new members to our Board of Trustees, all of whom were elected in May and bring tremendous talent and experience to our Board. Mitti Liebersohn, president and managing director of Avison Young's New York City office, brings a wealth of real estate experience, which is critically important as we seek a new home for the Museum. Saul Van Beurden, managing director of global technology for JPMorgan Chase, is helping us expand and enhance our digital presence, particularly while our physical galleries are closed to the public. And we welcome back to our Board Joe Mecane, who previously represented the New York Stock Exchange on our Board and has re-joined in his current role as head of execution services at Citadel Securities. We are so grateful to have these leaders in their fields join us as we plan for the future of the nation's only finance museum. $



The Museum welcomed three new members to its Board of Trustees in May. Pictured left to right: Mitti Liebersohn, Joe Mecane and Saul Van Beurden.

Financial History Editorial Board Member Lawrence Cunningham Will Be Honored with NACD's Lifetime Achievement Award

The National Association of Corporate Directors (NACD) announced that it will bestow its highest honor, the B. Kenneth West Lifetime Achievement Award, on George Washington University Professor Lawrence Cunningham, founding faculty director of GW in New York (GWNY). Cunningham has been an active member of the *Financial History* editorial board since 2016 and recently spoke at a Museum event on his new book, *The Warren Buffett Shareholder*.

Bruce Gilbert

Lawrence Cunningham spoke at a Museum event on April 23, 2018.

NACD, the authority on boardroom practices representing 18,000 directors, has for many decades recognized distinguished individuals who serve as role models in promoting exemplary board leadership, oversight and courage. Since 2007, NACD has designated 100 directors annually to its select roster, the *NACD Directorship 100*™, some being named as NACD Director of the Year and one receiving the Lifetime Achievement Award. The Lifetime Achievement Award recognizes the full scope of the honoree's lifetime board and governance career.

"Lawrence Cunningham has always been someone essential to turn to for keen guidance on corporate governance at its best," says James Kristie, the retired longtime editor and associate publisher of *Directors & Boards* magazine. Kristie ranks Cunningham among the "most influential leaders in the boardroom today" and "one of the leading thinkers in the field of board governance and leadership."

According to Charles Elson, corporate governance professor at the University of Delaware, "Cunningham is the nation's foremost scholar on the work of Warren Buffett and has served as an effective director under trying circumstances." His "superb scholarly work and courage as a corporate director" warrant recognition, Elson said. Ann Yerger, former director of the Council on Institutional Investors, summed up Cunningham's work as "objective, thoughtful and insightful" and "recognized throughout the corporate governance community."

Cunningham, a member of the GW faculty since 2007, writes and lectures extensively on corporate governance, and publishes the classic text, *The Essays of Warren Buffett: Lessons for Corporate America*, while advising and serving on the boards of numerous public and private companies and non-profits. These include Toronto-based Constellation Software, a leading global operator of hundreds of vertical software market companies, as well as the Dean's Council of Lerner College of Business at the University of Delaware.

In 2015, Cunningham founded GWNY, a boutique training program for aspiring boardroom lawyers. He appreciates the quip of Mark Leonard, a fellow Constellation director and its founder and CEO, that "Cunningham is too young for lifetime achievement awards and should settle for a 'bloody good decade' award." $

UPCOMING EVENTS CALENDAR

Sept 1 Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. Tour meets outside 48 Wall Street. $15 per person.

Sept 13 Walking Tour: When New York Was New Amsterdam. 11:00 a.m. – 12:30 p.m. Tour meets outside 48 Wall Street. $15 per person includes admission to the Lunch and Learn with Roy Germano.

Sept 13 Lunch and Learn Series: Roy Germano on *Outsourcing Welfare: How the Money Immigrants Send Home Contributes to Stability in Developing Countries.* Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. 48 Wall Street, 5th Floor. Members and students free; general admission $5.

Oct 3 Evening Lecture Series: Howard Marks on *Mastering the Market Cycle.* Talk followed by Q&A and book signing. Program presented in partnership with the Fordham University Gabelli Center for Global Security Analysis. 6:15 – 8:00 p.m. 140 West 62nd Street; McNally Amphitheater (Ground Floor). MoAF members free; general admission $25. The first 125 attendees will receive a free copy of the book.

Oct 10 Walking Tour: Alexander Hamilton's New York. 11:00 a.m. – 12:30 p.m. Tour meets outside 48 Wall Street. $15 per person includes admission to the Lunch and Learn with Kim Phillips-Fein.

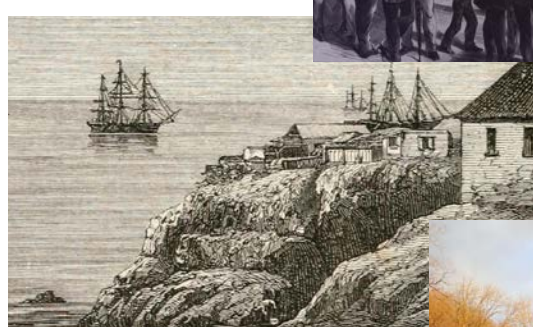
Oct 10 Lunch and Learn Series: Kim Phillips-Fein on *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics.* Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. 48 Wall Street, 5th Floor. Members and students free; general admission $5.

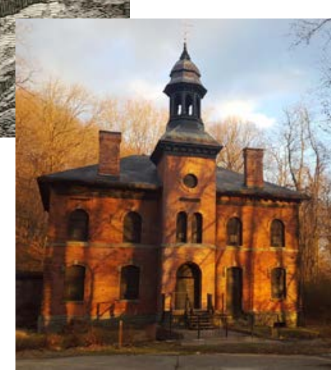
Oct 27 Annual Great Crashes Walking Tour. 1:00 – 4:00 p.m. Tour meets outside 48 Wall Street. $15 per person. Please note that tickets must be purchased in advance for this tour.

For more information or to register online, visit www.moaf.org/events.

TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?





1. Which Coney Island amusement park went belly up after failing to pay off its debts fast enough, with former state senator and real estate developer William H. Reynolds at the helm?

A. Luna Park
B. Steeplechase Park
C. Deno's Wonder Wheel
D. Dreamland

2. The invention of the stock ticker by Edward Calahan eliminated what job in 1867, once held by Wall Street's "weak link" William Heath?

A. Curb-yeller
B. Pad-shover
C. Number-runner
D. Stockjobber

3. The Blair family tree includes descendants of each of the following EXCEPT:

A. Charles Scribner
B. Alexander Hamilton
C. Howard Hughes
D. J.P. Morgan

4. Who was the Federal Reserve Chairman during the Stock Market Crash of 1987?

5. What is the oldest form of insurance?

6. After two failed attempts, what was the first bank established in Canada (in 1817)?

7. Who coined the term "hedge fund" in a 1966 issue of *Fortune* magazine?

8. Which South American nation, home to the Chincha Islands, relied primarily on guano (marine bird poop) exports to fund the government in the mid-19th century?

9. Where was the first locomotive, called the "Best Friend of Charleston," manufactured in the United States in 1831?

10. What mint was primarily used to store silver, serving as a companion facility to Fort Knox's gold repository?

1. Dreamland **2.** Pad-shover **3.** Howard Hughes **4.** Alan Greenspan **5.** Marine insurance (hull and cargo, specifically) **6.** Bank of Montreal **7.** Carol Loomis **8.** Peru **9.** The West Point Foundry in Cold Spring, NY **10.** The West Point Mint

Constructing the Original Pennsylvania Station

By Sarah Poole, Collections Manager

If you live or work in New York City and its surrounding areas, the tale of commuting woes is a familiar one. Train delays and cancellations due to electrical problems, broken rails and other systematic failures are a near-daily occurrence for New York's commuters who rely on NJ Transit, the Long Island Rail Road and Amtrak to travel into and out of the city through one of the world's busiest train terminals: Pennsylvania Station.

Known to most people simply as Penn Station, the terminal serves 430,000 travelers each weekday with more than 1,300 arrivals and departures on its 21 tracks. For comparison, New York's other major rail station, Grand Central Station, serves 267,000 MTA-Metro North and Amtrak passengers per day on 43 active tracks. While the high volume is certainly problematic, as minor issues can quickly compound into commuting nightmares, the most-blamed culprit for the state of affairs is the 108-year-old tunnel system that services the station.

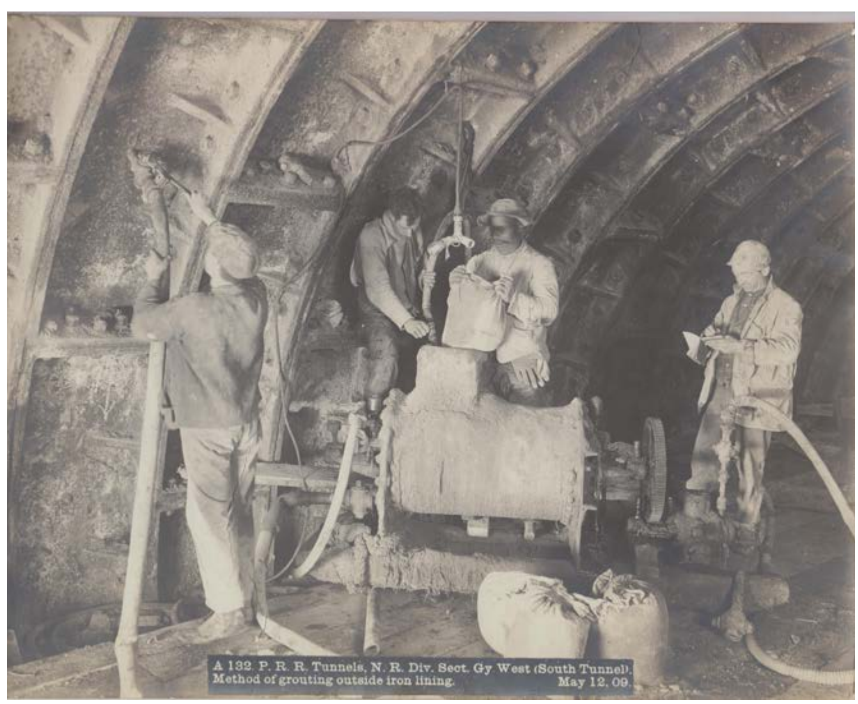
The original Penn Station and its tunnels were built at a different time for a different city. Prior to 1910, if you wanted to travel to New York City from New Jersey or Long Island, your train journey would terminate at either the Hudson River or East River, and you would have to board a ferry to continue on to Manhattan. Railroad companies had attempted to construct rail tunnels and bridges to connect New Jersey and Long Island with Manhattan throughout the 1870s and 1880s, but those projects failed due to engineering challenges and financial difficulties.

When the Pennsylvania Railroad (operating in New Jersey) acquired the Long Island Rail Road in 1900, gaining direct access to New York City became a priority for the company. Its major competitor, the New York Central Railroad, controlled the only rail access to Manhattan, from the north, across the Harlem River.

In June 1899, Alexander Cassatt became the president of the Pennsylvania Railroad Company, and his vision was to modernize the American railroad system. He visited Paris in the summer of 1901 and was inspired by the year-old Gare d'Orsay, the world's first electric rail terminal. He had visited the new terminal on the suggestion of Pennsylvania Railroad executive Samuel Rea, who argued for electric railroad tunnels as early as 1892. Cassatt was convinced that electric tunnels were the answer to his railroad's problem in New York and persuaded the company's board of directors to undergo a massive project to construct the tunnels along with a brand new terminal. The company quietly started acquiring land for the project that Fall and announced the $40 million project to the public in December 1901.

Construction on the tunnels began in 1903 and continued into 1910. The Museum of American Finance acquired

Construction photograph showing the iron lining and concrete arch of the south tunnel into Pennsylvania Station, May 3, 1909.



Grouting the iron lining of the south tunnel into Pennsylvania Station, May 12, 1909.

Collection of the Museum of American Finance

about dozen original photographs of this construction through a 2002 donation. According to the donor, these photos possibly belonged to Samuel Rea, who became president of the Pennsylvania Railroad in 1913. Two of these photographs are shown here.

The Long Island Rail Road became the first line extended into Manhattan in September 1910, though the Pennsylvania Station terminal building was not yet completed. The grandiose terminal building designed by Charles McKim opened to great fanfare in November 1910. According to the Interstate Commerce Commission, the Pennsylvania Railroad ended up spending $114 million in total on the tunnels and terminal project. New York could finally boast its world-class transportation infrastructure.

Unfortunately, as New York City and its suburbs developed, Penn Station did not grow with them. The original terminal building was demolished in the mid-1960s and was replaced with an underground passenger area topped by Madison Square Garden and an office building. The demolition is widely considered a tragedy and inspired the establishment of the city's Landmarks Preservation Commission in 1965 to protect historic architecture.

As scores of commuters enter and exit the city through ugly, cramped passageways, frustrations with worsening conditions have been rising. New York, New Jersey and Long Island are now facing an infrastructure crisis. Proponents of the $30 billion "Gateway Project" to improve and expand transportation between New Jersey and New York argue that the states' economies could lose $100 million every day should one of the existing tunnels need to be taken out of service.

Penn Station has been surpassed over and over again by cities across the globe, and New York once again lacks innovative rail technology and a modern, welcoming environment to boast its status as a world-class city. Proposed projects to bring the tunnels and Penn Station up to date, such as the aforementioned Gateway Project, have been stymied by budgetary and political debates, despite estimates that the local economies could benefit up to $3 per every $1 spent on infrastructure improvements. In the meantime, the daily commute into and out of Manhattan from New Jersey and Long Island will continue to be the journey of a century. $

MUSEUM OF AMERICAN FINANCE 2017–2018 DONORS*

The Museum deeply appreciates the support received from the following generous donors:

PLATINUM
- Citadel
- Citadel Securities
- ICE/NYSE
- Royce & Associates
- Shenkman Capital Management

GOLD STANDARD
- Davis Polk & Wardwell LLP
- Fitch Group
- John Herzog
- The Ricketts Family
- Charles Schwab & Co., Inc.
- The Paul E. Singer Foundation
- Warburg Pincus
- WilmerHale

SILVER CERTIFICATE
- Cliff and Laurel Asness
- Capgemini
- Citi
- Dalio Foundation
- William H. and Jane P. Donaldson
- Fried, Frank, Harris, Shriver & Jacobson LLP
- Houlihan Lokey
- Carol Kaimowitz
- KKR
- Peter G. Peterson Foundation
- Protiviti
- S&P Global
- The Starr Foundation
- Richard Sylla
- Tishman Speyer

SPONSORS
- American Express
- Anonymous
- Bloomberg Philanthropies
- Con Edison
- Crystal & Company
- Gabelli Funds
- Gibson, Dunn & Crutcher LLP
- Goldman Sachs
- Martha Clark Goss
- Al and Denise Hurley
- ING Financial Holdings Corporation
- JPMorgan Chase
- Glenn Kaufman
- Moody's
- Nasdaq
- New York Life
- Karen Seitz
- Maria Smith
- TD Ameritrade
- Teigland-Hunt LLP
- Third Point LLC
- Charles V. Wait

DONORS
- Howard Abner
- Theodore Aronson
- Bank of America
- Barrett Asset Management
- William Behrens
- Bloomberg for Education
- Bruce Bent
- Jack Bogle
- Carter Ledyard & Milburn LLP
- Cboe
- Andrea de Cholnoky
- Charles Elson
- Eric Newman Foundation
- Flooring Solutions Group LLC
- William Harrison
- Michael Henriques
- Paul Isaac
- Seth Kaller
- Muriel Siebert Foundation
- Myron Kandel
- Laser Family Foundation
- Marge Magner
- Merrill Lynch
- Rodger Riney
- Saybrook Capital
- Walter Shipley
- VanEck
- Taylor Wagenseil
- Anthony Yoseloff

**Reflects gifts of $1,000 and greater*

In Defense of Capitalism Part III: It's Not All About Self-Interest

By Brian Grinder and Dan Cooper

The fat man sank back in his chair and let his body go flaccid. He blew his breath out in a long contented gust. "That's wonderful sir," he purred. "That's wonderful. I do like a man that tells you right out he's looking out for himself. Don't we all? I don't trust a man that says he's not. And the man that's telling the truth when he says he's not I distrust most of all, because he's an ass and an ass that's going contrary to the laws of nature."

— Casper Gutman, *The Maltese Falcon*

The war against capitalism has intensified since the economic meltdown in 2008. Capitalism has always had its critics, but it seems to be increasingly unpopular among young people today. In the last two "Educators' Perspective" columns, we discussed the increasing antagonism towards capitalism and argued that colleges and universities must educate students about all facets of capitalism so that they can make informed decisions about its future. To this end, we offered a working definition of capitalism and argued that capitalism is not a transitory system *en route* to an ultimate economic system which will bring heaven to earth; capitalism operates in the here and now. It offers hope for the future, but it does not promise an economic nirvana. We now turn to the issue of self-interest as an economic motivator.

Self-interest, a key driver behind modern economics, finds its ultimate expression in utility maximization. To maximize utility, each individual acts out of self-interest in order to maximize his or her level of satisfaction, pleasure or utility. When taken to the extreme, outside of all other ethical considerations, utility maximization leads to absurd notions.

For instance, former Seventh Circuit court judge Richard Posner argues that "…some rapists derive extra pleasure from the fact that the woman has not consented. For these rapists, there is no market substitute—market transaction costs are prohibitive—and it could be argued that, for them, rape is not a pure coercive transfer and should not be punished if the sum of satisfactions to the rapist exceeds the victim's pain and distress."

The legitimization of rape from an economic standpoint is not only absurd, it is reprehensible. Posner acknowledges that thinking of rape in terms of wealth-maximization theory "will strike many readers as a limitation on the usefulness of that theory." What an understatement!

Bernard Mandeville (left) and Claude Frédéric Bastiat (right)

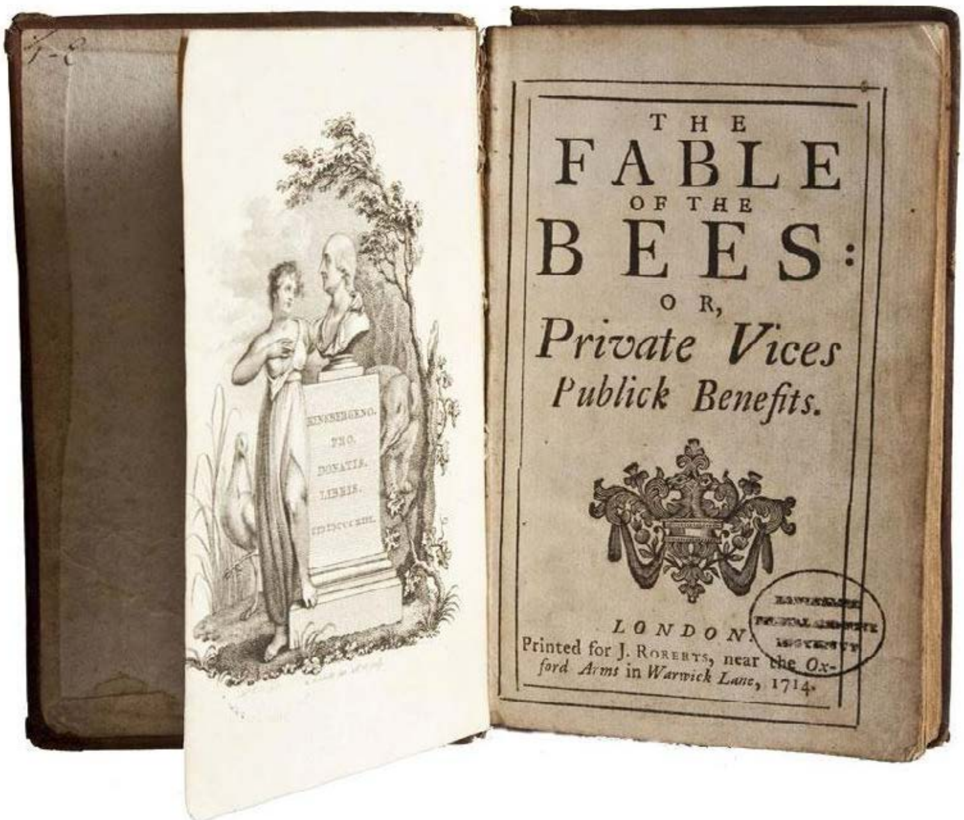
Homo economicus (economic man), defined by economist Tomas Sedlacek as "a rational individual, who, led by egotistical motives, sets out to maximize his benefit," is a mere caricature of humanity. Although important economic insights have been gleaned from viewing humans as utility maximizers, the failure to see beyond mere materialistic notions of humanity has left economics in an impoverished state.

The debate over self-interest's role in the economy can be traced back to Plato and Aristotle, but it found its sharpest focus in Bernard Mandeville's (1670–1773) work *The Fable of the Bees: Or Private Vices, Publick Benefits*. Published in 1714, *The Fable of the Bees* includes the poem "The Grumbling Hive," along with Mandeville's commentary on the poem. Mandeville describes a vibrant beehive economy where:

> …every Part was full of Vice,
> Yet the whole Mass a Paradise;
> Flatter'd in Peace, and fear'd in Wars,
> They were th' Esteem of Foreigners,
> And lavish of their Wealth and Lives,
> The Balance of all other Hives.
> Such were the Blessings of that State;
> Their Crimes conspir'd to make
> them Great.

Mandeville argued that greed was necessary for economic progress. In the poem, when the gods agree to suddenly rid the beehive of all vice, it withers and dies. The sudden removal of vice from the beehive is what would be described today as an economic shock. Such a shock would adversely affect the beehive for some time, but it probably would not lead to its demise. On the other hand, had Mandeville chosen to rid the hive of all virtue, the economic shock would have been far more devastating.

Adam Smith, contrary to popular belief, disagreed with Mandeville's position on greed. In *The Theory of Moral Sentiments*, Smith criticized Mandeville's position several times. According to Sedlacek, "Mandeville is the only one whom Smith so directly criticizes, ridicules and caricatures." For instance, Smith described Mandeville's work as in "almost every



First edition of Bernard Mandeville's *The Fable of the Bees,* published in 1714.

respect erroneous," and called Mandeville's eloquence "course and rustic" giving his "doctrines an air of truth and probability which is very apt to impose upon the unskillful."

Smith was not alone in his criticism of vice as a necessary element in a thriving economy. French economist Claude Frédéric Bastiat (1801–1850) argued against the idea that destructive forces are beneficial to the economy. He used the example of a hoodlum breaking a window. Some would argue that the broken window is a good thing; otherwise, glaziers would be out of a job. Bastiat retorts that such a position ignores the fact that if the owner of the window has to pay six francs to repair a broken window, he cannot spend it on a new pair of shoes or a new book for his library. In other words, the proponents of vice as a benefit to the economy, from Mandeville onward, are guilty of ignoring the opportunity costs associated with vice.

Virtue, not vice, must be the focus of economics. Self-interest must not be associated with greed, but with the virtue of prudence. Indeed, economist Deirdre McCloskey advocates for recognizing and implementing all the "bourgeois virtues" in our capitalist society. She identifies these as four pagan or cardinal virtues: justice, courage, temperance and prudence; and three Christian virtues: faith, hope and love. McCloskey argues that overemphasizing any one of the seven virtues at the expense of the others will lead to vice. For instance, "Virtuous Prudence unalloyed [to the other virtues] is sinful Greed…an excess of love is gluttony or lust."

Like McCloskey, Catholic philosopher Michael Novak holds that many virtues are required to operate a modern business. These virtues include diligence, industriousness, prudence, reliability, fidelity and courage. Economist Robert Nelson agrees, writing, "…the effective working of markets requires a common commitment to ethical behavior, something historically most often instilled by a religion." Without virtuous behavior, he notes, transaction costs quickly balloon because opportunistic behavior increases and implicit contracts fail. This leaves markets to operate in a terribly inefficient environment.

Religion, without regard to specific theological details, has historically provided the bedrock that encourages trust, discourages opportunists and minimizes transaction costs. However, Novak contends that there is no single sacred canopy in a truly pluralistic society. "At [democratic capitalism's] spiritual core," explains Novak, "there is an empty shrine. That shrine is left empty in the knowledge that no one word, image or symbol is worthy of what all seek there. Its emptiness, therefore, represents the transcendence which is approached by free consciences from a virtually infinite number of directions... Believer and unbeliever, selfless and selfish, frightened and bold, naive and jaded, all participate in an order whose center is not socially imposed."

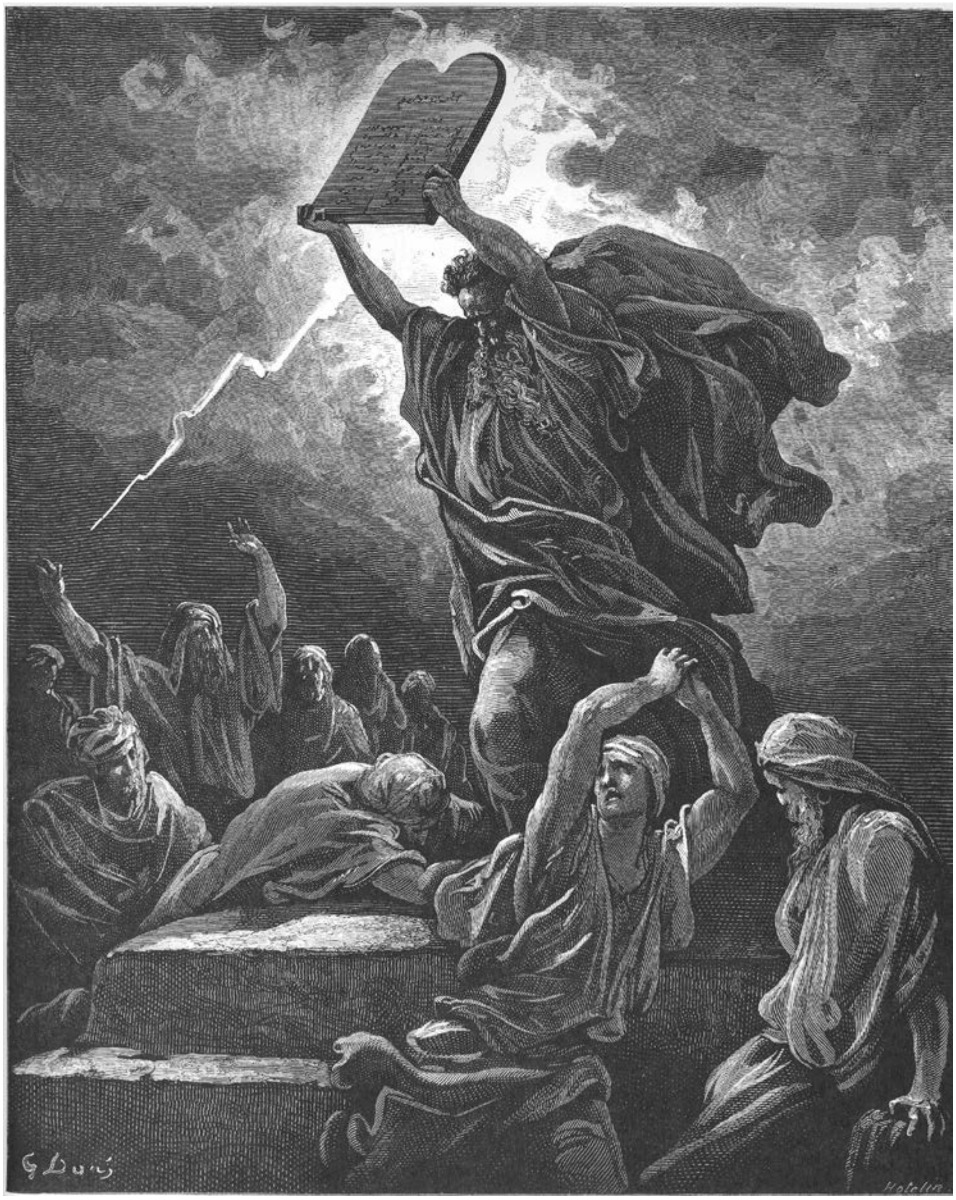
Novak, Nelson and McCloskey state that we must appeal to the ethical wisdom that has been handed down over the years by our major religious institutions. Without this ethical structure, capitalism's well-being is in jeopardy. Despite religion's own recent ethical failings, theologian Kenneth J. Barnes argues that it still has a place in the global economy because its "traditional values still have currency in the marketplace of ideas."

The challenge for today's capitalists is to salvage the ethical standards offered by religion and find a way to effectively instill them in their organizations.

No one appealed to selfish *homo economicus* to defend Volkswagen when it was caught cheating on emissions tests, or when Wells Fargo created fraudulent accounts for its customers. Both actions were rightly met with outrage. In a recent commercial, Wells Fargo addressed its wrong-doing head on in an effort to rebuild its tarnished reputation:

> We know the value of trust. We were built on it. Back when the country went West for gold, we were the ones who carried it back East. By steam. By horse. By iron horse. Over the years, we built on that trust. We always found the way. Until… we lost it.

The commercial goes on to describe the various steps Wells Fargo has taken



"Moses Breaks the Tables of the Law," from Gustave Dore's English Bible, 1866. Capitalism's ethical roots lie in the Judeo-Christian tradition.

to correct the problem, including ethics training for employees. Faith, justice, integrity and courage are all virtues that Wells Fargo must encourage and instill in its employees over the long term if it truly wants to restore its reputation.

Self-interest's domination of economic life led to ruin during the financial meltdown of 2008. If capitalism is to function properly again, it must have a strong ethical foundation that balances all the virtues properly. Motivating ethical behavior without imposing it through government action or relying on self-regulation will never be easy. But Novak's empty shrine must remain empty; no single religion must occupy it and no government should attempt to impose its will upon it. There is always common ground for ethical behavior, and we must encourage future generations to never stop searching for it. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

Sources

Barnes, Kenneth J. *Redeeming Capitalism.* Eerdmans Publishing Co.: Grand Rapids, MI. 2018.

Bastiat, Frédéric. *The Bastiat Collection*. Ludwig von Mises Institute: Auburn, AL. 2011.

Hammett, Dashiell. *Dashiell Hammett Complete Novels: Red Harvest, The Dain Curse, The Maltese Falcon, The Glass Key, The Thin Man*. Library of America: New York. 1999.

Mandeville, Bernard. *The Fable of the Bees or Private Vices, Publick Benefits*. Liberty Fund: Indianapolis, IN. 1988.

McCloskey, Deirdre N. *The Bourgeois Virtues: Ethics for an Age of Commerce.* University of Chicago Press: Chicago. 2006.

Nelson, Robert H. *Economics as Religion: From Samuelson to Chicago and Beyond*. Pennsylvania State University Press: University Park, PA. 2001.

Novak, Michael. *Business as a Calling: Work and the Examined Life*. The Free Press: New York. 1996.

Posner, Richard A. *Economic Analysis of Law*. Little, Brown and Company: Boston. 1992.

Sedláček, Tomáš. *Economics of Good and Evil: The Quest for Economic Meaning from Gilgamesh to Wall Street.* Oxford University Press: New York. 2011.

Smith, Adam. *The Theory of Moral Sentiments*. The Perfect Library. 1759.

The Spirit of Democratic Capitalism. Madison Books: Lanham, MD. 1991.

The Gold Rush of 1576

How England Learned the Perils of Prospecting

By John Butman and Simon Targett

Toward the end of March 1577, with spring in the air, Michael Lok, then about 45 years old, found himself in a difficult situation. He was in the final stages of organizing a voyage to the New World, and his fleet had to set sail from England soon to catch the westerlies that would scud them across the Atlantic to Newfoundland. But Lok had not raised quite enough capital to comfortably support the venture, so, as March slipped away, he found himself in fundraising mode, approaching friends and fellow merchants, trying to secure pledges.

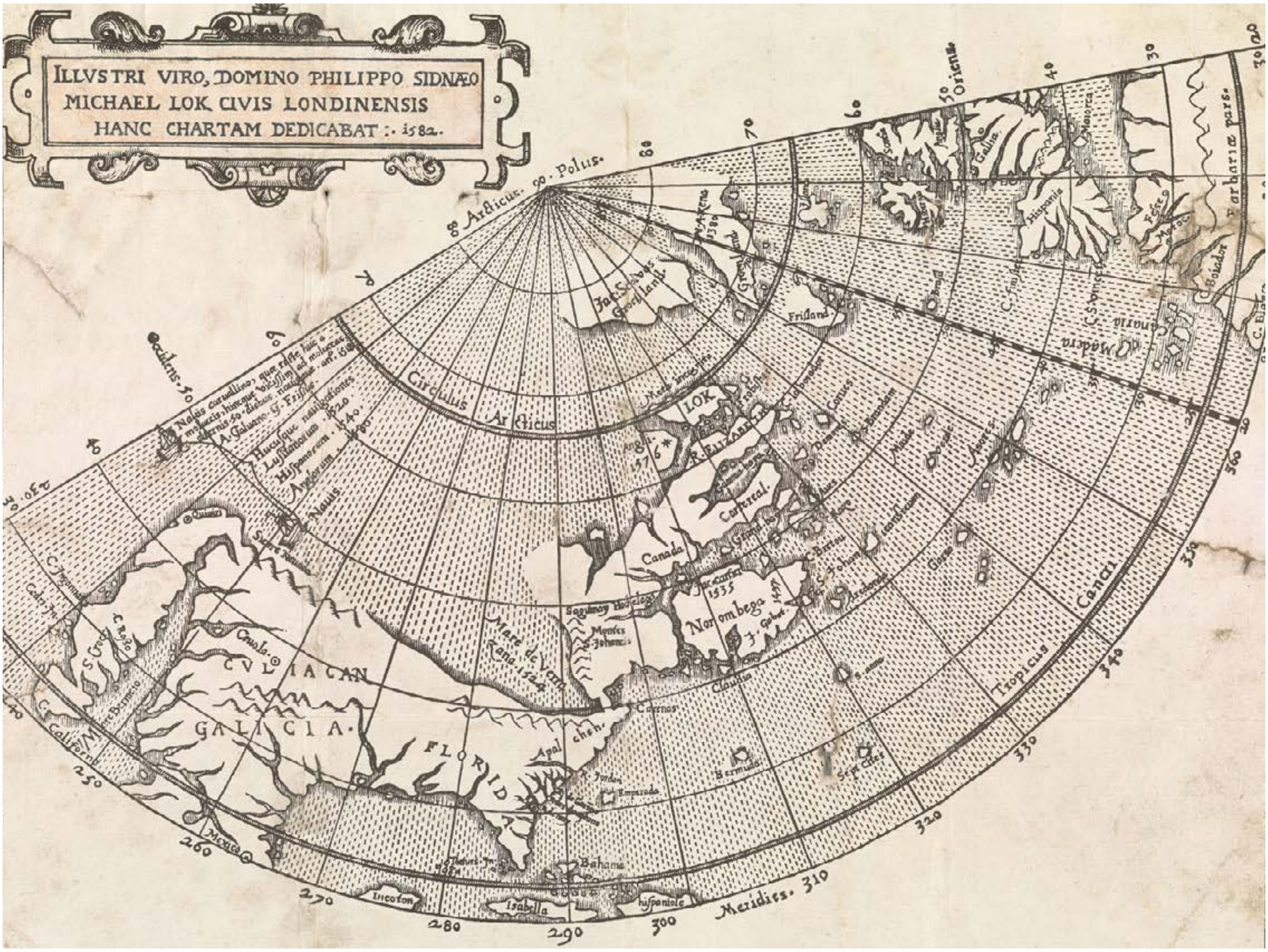
It was never easy convincing investors to gamble their money on high-risk overseas ventures, even for Lok, who was a well-known London merchant and principal agent—essentially the general manager—of the Muscovy Company, England's first joint-stock company. It had been formed in 1553 to advance the country's overseas trade initiatives, and now it did considerable business to the east, primarily with Russia.

In 1575, Lok had gained permission from the Muscovy Company to form a new organization, to be called The Cathay Company, whose purpose would be to seek new trade opportunities to the west. The plan was to locate the fabled Northwest Passage that was believed to flow along the northern margin of America, sail through it to the East Indies and Cathay—as China was then known. There they would conduct trade, exchanging England's woolen cloth for the sought-after commodities of the East.

Lok had teamed up with Martin Frobisher, a bold and experienced mariner, albeit with a slight spotty reputation—as the result of occasional piracy and stints in jail. Lok took on the role of principal organizer and main financial backer of the voyage. Frobisher's fleet of three small vessels set sail in June of 1576, with high hopes of a speedy transit to China and a swift return, holds filled with exotic goods: silks for clothing, spices for food preparation and medicinal concoctions.

Courtesy of the collections of the University of Oxford.

Portrait of Sir Martin Frobisher by Cornelis Ketel, 1577.



Courtesy of the Osher Map Library, University of Southern Maine

Michael Lok had this map produced touting what he claimed to be the discovery of the Northwest Passage and showing an island named for him, 1582.

But Frobisher had returned to London in October 1576—at least a year earlier than expected—with little to show for his exploits. Although he swore he had sighted the entrance to the Northwest Passage (and he very well might have), his crew had threatened mutiny after one of the ships had been lost in heavy weather, and they refused to sail any deeper into the strait. Frobisher did capture an Inuit native, however, as proof of the fleet's westward progress, and he also brought back a few black stones—a friable shale—picked up on one of the islands north of Newfoundland.

Lok saw Frobisher's voyage as an encouraging first step in what he believed would be a difficult, but ultimately rewarding, venture. So he began preparations for a second, more ambitious voyage. To assemble a fleet of larger, more capable vessels, Lok budgeted for a total expense of £4,500. By March of 1577, he had managed to raise more than £3,000 and had scored a major coup when he enticed Queen Elizabeth I—usually not an active investor in New World ventures—to give her blessing and support to the enterprise. She even went so far as to lend her flagship, the *Ayde*, to the cause.

Even so, Lok found himself in a precarious financial situation. He was at risk of losing his entire investment in the first voyage, nearly £1,000, if the second one did not produce results. And he was reluctant to dispatch the second fleet with just £3,000 in funding—especially since much of it was in the form of pledges, not cash or goods. No wonder he was beginning to feel great concern.

That's when the miracle happened.

As the story goes (the details are uncertain), pieces of the souvenir rocks had been distributed to a few of the investors. For some reason, perhaps because such shale was known to burn well as fuel, the wife of one of the merchant adventurers, possibly Lok's own wife, tossed a chunk into a fire burning at the hearth. After a time, someone glanced toward the flames and noticed that the rock had begun to "glister" with a golden sparkle.

Lok or one of his friends, intrigued, extracted it from the fire. It was then "quenched" with a bit of vinegar, a 17th-century makeshift method of homemade assaying. To Lok, at least, the quick evaluation made it seem quite likely that the rock contained gold.

The possibility that Frobisher had

accidently stumbled on a gold mine shook Lok to his core. If The Cathay Company could locate a new wealth stream, and Lok were the one to develop it, his whole life and the fortunes of England could be transformed. At the time, England was a marginal country on the edge of Europe, and in dire straits—socially, politically and economically. Its cloth merchants, long content to trade in Continental markets, faced increased competition from abroad and a decline in demand for their products. England was overshadowed in wealth and might by Spain, whose treasury overflowed with the output of Mexican and Peruvian gold and silver mines.

English maritime capability—its ships and navigational knowledge—was limited, and so were its options for expanding its reach. As a result of the Treaty of Tordesillas, agreed in 1494, the unclaimed areas of the world had been divided in two by Pope Alexander VI, with half granted to Spain and half to Portugal. The English dared not sail the southern routes to China—around the tip of Africa or South America—or venture into the West Indies or South America, for fear of treading on the salty toes of Spanish and Portuguese traders. If England could tap into a source of precious metal as rich as Spain had found in Peru, Lok could conceivably become fabulously wealthy and England could erase its debts, build a more capable navy, develop new products for sale, open new Continental markets and assume a much more powerful position in the world.

But first Lok had to be sure that the glistering substance was indeed gold, which meant subjecting it to a thorough assay by an expert metallurgist. This was not so easy or sure a thing as it may sound. At the time, the assay process—from the French word for a "trial"—was still in development. Precious metals, including gold and silver, are typically embedded in rock and earth and rarely found in a pure state. The purpose of the assay is to separate out the precious metals and determine the percentage of gold or silver in the rock or ore.

The usual approach was to burn the ore in a furnace, often in combination with other materials, until the precious metal melted out. But there was no standard procedure, and results could vary widely depending on many factors, including heat, duration, additives and the skill of the assayer.

Lok entrusted his precious sample to one of England's leading metallurgists, William Williams, asking him to keep the results confidential. The findings were not encouraging. The stone, Williams said, was an iron compound of some kind—a pyrite, otherwise known as fool's gold. But Lok, knowing how unreliable an assay could be, took samples to two other experts. They both confirmed Williams's view that the rock was worthless. Still Lok refused to accept the tests as conclusive. Like a hypochondriac seeking a doctor who will confirm his imagined ailment, he looked for an assayer who would give him the analysis he wanted.

He soon found one: Giovanni Baptista Agnello, a Venetian goldsmith living in London, who was considered an expert in alchemy and metallurgy. He examined Lok's sample and, after three days of tests, reported that he had managed to extract "a very little powder of gold" from the ore. Lok, finally hearing what he wanted to hear, now seemed unable to accept it. Why was it that Agnello had found gold when three other skilled assayers had found none? Agnello assured Lok, in his native Italian, easily understood by the well-traveled Lok, "Bisogna sapere adulare la natura": *You have to know how to flatter nature.*

Lok was not the only one pursuing an investigation into the stones. The Queen's Privy Council had formed an official commission, headed by Sir William Winter, surveyor of the Navy, to look into the matter. Their results were conclusive and contrary to Lok's. The royal assayers estimated there were four ounces of gold in every hundred pounds of ore. That meant each ton was worth some £240. And, with ore this rich on the surface, there was likely to be much more gold lurking underground. As Winter explained to Lok, the venture was now a matter of national significance, far too great for The Cathay Company to pursue solely for its own private gain.

The news flew all across London and beyond. Lok's struggling venture was swiftly transformed into a hunt for gold, and his financial worries evaporated. In just six weeks, nearly £2,000 of additional capital was pledged, taking the total raised to £5,150—more than enough to cover the costs of a well-supplied voyage.

Not everyone was convinced, however, of the benefits of chasing after precious metal. Philip Sidney, the great poet and one of the main investors in Lok's venture, had been cautioned about the risks of gold lust. He had written a letter to his friend, the Frenchman Hubert Languet, one of the most learned men of the day, to report that Frobisher believed the gold find could be more valuable to England than the mines in Mexico and Peru were to Spain. Languet replied with a warning. England would soon be gripped with an "insane" longing and unquenchable "thirst for gold," he wrote, which was among the "most fatal and hurtful to mankind." Languet counselled Sidney to resist the temptation, advice Sidney ignored.

By May, two months after the rock had been rescued from the fire, Lok had organized the second voyage, and Frobisher was ready to sail. He had been instructed to gather and mine as much ore as the two ships could hold. At the end of June 1577, the fleet reached an island near Newfoundland, and the men immediately disembarked and set to work. They lifted, dug and carried the heavy stone for three weeks—with Frobisher working alongside them—and loaded almost 200 tons of ore aboard the ship. On August 20, with the weather turning nasty and the men exhausted, the fleet headed for England.

This time, when Frobisher returned to London, the news of the gold-laden ore on English soil generated so much excitement that Lok began thinking about a third voyage, even before the tests of the ore were complete. Several assayers were engaged, and they soon fell to squabbling about methods and motives, although they all agreed that a bigger and better furnace was required to test such a huge sample. But no one had the patience for that, so the assayers made do with an existing furnace. They concluded that the "richness" of the ore was such that it would indeed yield a great deal of gold.

Lok and The Cathay Company wasted no time organizing a third voyage that would not only gather more ore but would transport 100 men to establish a settlement at the mining site. This enterprise was far grander than either of the previous two. With Elizabeth as the lead investor, the merchants pledged a total of £6,952, more than the amounts raised for the first two voyages combined. The fleet comprised 15 ships—the largest assembled for a commercial venture at that time—with the *Ayde* once again as flagship.

Frobisher set sail at the end of May 1578 and returned to England that fall, hauling

From *De La Pirotechnia* by *Vannoccio Biringuccio*, 1540. Author photo.

Original caption: "An assaying laboratory, showing balances, muffle furnace for cupeling, ingot mold, etc."
A number of assays were conducted to determine if the ore Frobisher brought back contained gold. It didn't.

another 1,296 tons of ore. Much of the ore was immediately dispatched to the now-completed blast furnace, and the assays began again. Soon everything went silent. Results were not forthcoming. The assaying process dragged on and on. Fervent hope turned into concern and worry. Lok began running short of money. At the end of October, he reported that he needed to raise £6,000—some from outstanding pledges and some in new capital—to take care of his bills and cover the considerable and unbudgeted cost of handling and testing the ore.

Now, as he tried to collect, Lok realized he had made a terrible mistake. Before the first voyage, he had essentially signed a personal guarantee for The Cathay Company's obligations. But the company had never attained formal legal status, which meant that Lok was personally responsible for the costs of the entire venture. He soon found that collecting money after the completion of a venture was far more difficult than doing so in advance, especially when no one was sure if the ore was valuable.

Some investors refused to honor their pledges, and Lok got stuck with the entire bill. He was suspended as treasurer of The Cathay Company and, in desperate straits, petitioned the Privy Council's commission for a grant of funds, pleading that he, his wife and 15 children had been reduced to begging. They turned a blind eye, and Lok ended up in debtors' prison. Frobisher, too, was outraged and railed against the assayers, certain that his ore was the genuine article and that he was being cheated out of his rightful fortune.

William Williams conducted a final assay on the ore in May 1581. It proved once and for all that the ore did not contain sufficient precious metal to make it profitable. The rock was not completely worthless, however. It was repurposed in a variety of ways—from the repairing of roads to the construction of a wall surrounding one of Queen Elizabeth's houses.

If there was a silver lining to England's gold bubble of 1576-8, it was that the merchants learned a valuable lesson. Having been so badly burned, they never again invested so heavily in prospecting ventures in the New World. They kept up hopes that they might stumble on a rich lode, but they soberly turned their attention to other, more mundane, commercial pursuits—trade in fish, furs, sassafras and, of course, tobacco—that eventually led to the development of American settlements and a sustainable, productive and unique society. $

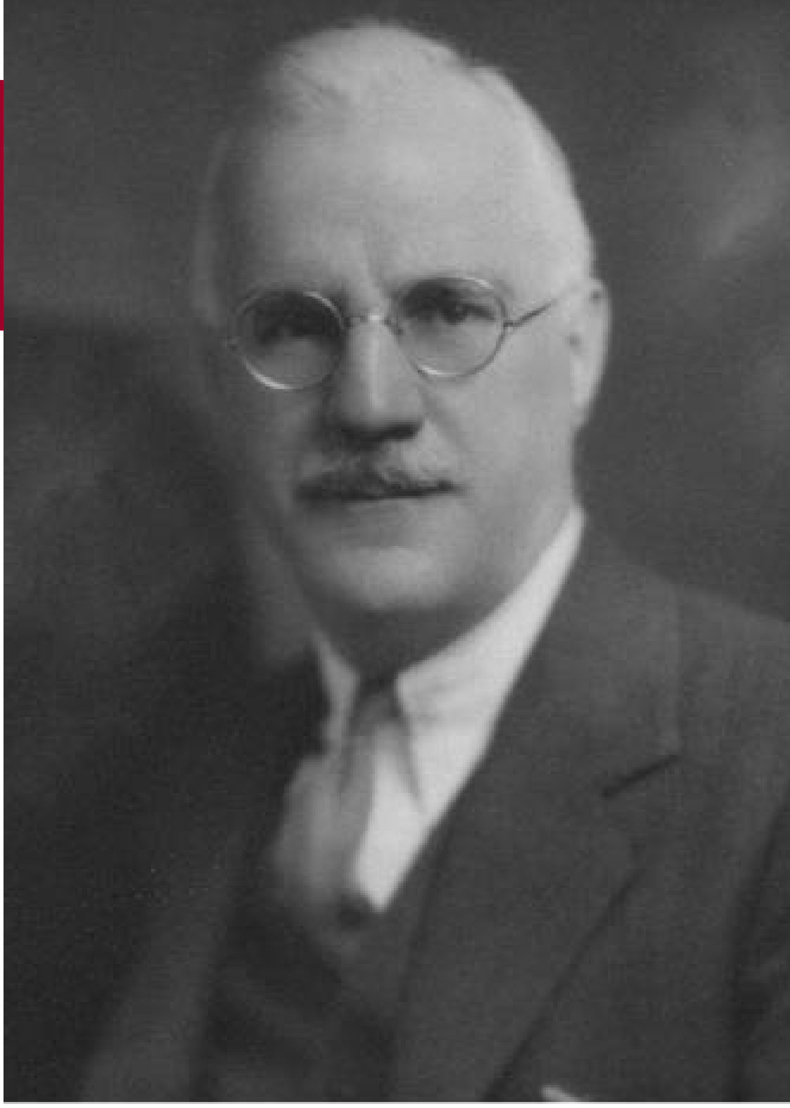
John Butman is an author, editor and collaborative writer. His writing has appeared in the Harvard Business Review, The Nation *and other publications, and his work has been featured in* The New York Times, The Economist *and media venues around the world. His titles include* Trading Up: The New American Luxury, *which was a* BusinessWeek *bestseller, and* Breaking Out: How to Build Influence in a World of Competing Ideas. *John divides his time between Portland and Bailey Island, Maine, not far from one of the earliest English settlement sites in America.*

Dr. Simon Targett is a writer, historian and media consultant. He holds a Ph.D. in history from Cambridge and has written articles on British history for various publications. An award-winning journalist, he has served as a correspondent and senior editor of the Financial Times *and as global editor-in-chief of The Boston Consulting Group. He lives in London with his wife and two children.*

Excerpt taken from *New World, Inc.: The Making of America by England's Merchant Adventurers* (Little, Brown and Company, 2018).

WHERE ARE THEY NOW?

J.J.B. Hilliard & Son



Photographic Archives, Ekstrom Library, University of Louisville

By Susie J. Pak

Portrait of Edward H. Hilliard, 1928.

Origins

A Lexington, Kentucky native, Abraham Dagworthy Hunt was educated at Transylvania University and was a lawyer by trade. His father, John Wesley Hunt, was "a wealthy hemp merchant, banker and real estate owner." In 1829, A.D. Hunt moved to Florence, Alabama, where he married and entered the business of manufacturing cotton goods. He then moved to Louisville and became the president of the Lexington and Frankfort Railroad Company. In 1850, he opened the banking firm of A.D. Hunt & Co. with Alpheus Camillus Badger, a New Hampshire native who had been a clerk in the brokerage firm of F. Massol & Co. In 1857, when the firm survived a panic, *The Courier-Journal* reported, "The house of A.D. Hunt & Co. has stood firm, and now occupies a higher position than ever in the confidence of the public."

In 1861, on the eve of the Civil War, A.D. Hunt closed his firm and went to Europe, while Badger moved to Chicago. *The Louisville Daily Courier* reported that the Hunt family expected to stay abroad for several years. After the war, Hunt returned and resumed business. The new name of his firm was Hunt & Morton (for partner Henry Clay Morton) and later Hunt, Morton & Quigley (for partner Edward P. Quigley), although Quigley died unexpectedly that year at the age of 28. In 1866, the Hunt & Morton partnership was dissolved, and Hunt retired. H.C. Morton left to form the firm of Morton, Galt & Co.

A.D. Hunt & Co. (1872)

In 1872, A.D. Hunt re-formed his namesake firm with partners John James Byron (J.J.B.) Hilliard and George Keats Speed. Born in North Carolina, J.J.B. Hilliard was the son of farmer Isaac Hilliard and his cousin, Lucy Emily Hilliard. He was an 1850 graduate of Columbian College in Washington, DC, and an 1852 graduate of Harvard Law School. During the Civil War, Hilliard served as a major in the Confederacy. After the war, he joined the firm of Brannin, Summers and Company, a New Orleans cotton commission house. In 1869, he moved from New Orleans to Louisville, Kentucky, where he entered the commodities shipping business. In 1871, he married the former Maria Louisa Henning Hobbs, a Kentucky native, who was the daughter of James W. Henning. Maria was the widow of Basil Hobbs, a captain in the Union Army.

Hilliard and Hunt's partner, George Keats Speed, came from a prominent Kentucky family. The son of Philip Speed, George K. Speed was a descendant of English immigrants who settled in Virginia in 1665. His paternal uncle, the Honorable James Speed, was the Attorney General for President Abraham Lincoln. His father

was a manufacturer of wood working machinery and worked as a paymaster in the federal army during the Civil War, the Collection of the Internal Revenue and the General Agency of the Western Cement Association. His mother, the former Emma Keats, was the daughter of George Keats, a lumber merchant, and the niece of John Keats, the English poet. Speed was also related by marriage to the Henning family. His uncle, Joshua Fry Speed, who was a guarantor of the A.D. Hunt firm, was James W. Henning's brother-in-law. Joshua Speed and James Hennings were also business partners and engaged in real estate and banking business.

A month after Hunt died in May 1885, Speed, who was the cashier of the firm, suddenly left the city; rumors spread that he had taken the firm's funds and fled to Canada. An investigation ensued that showed Speed had overdrawn his account and determined that his mind had been "unbalanced by everwork." According to *The Courier-Journal*, Speed had realized that he had to settle his account with the firm because Hunt's death meant that the firm would dissolve. His brother, Thomas, an officer in the Kentucky National Bank, brought him back to Louisville, and the overdraft was covered by a mortgage that Speed and his wife filed "in favor of Mrs. A.D. Hunt and Mr. J.J.B. Hilliard, representing the firm of A.D. Hunt & Co."

The day after the papers reported that Speed had been brought back to Louisville, Hilliard placed a notice in *The Courier-Journal*, which stated that A.D. Hunt & Co. had been dissolved, that "the affairs of the firm will be settled by J.J.B. Hilliard," and that "all depositors [would] be paid in full on demand at their banking office." George Keats Speed died in 1887.

J.J.B. Hilliard, "Bond, stock and money broker and banker" (1885)

In September 1885, Hilliard announced that he would go into business for himself. Though various sources state that he initially opened his own firm, it appears that he was in business on his own name as a broker. In his notice in *The Courier-Journal* that year, Hilliard states, "As successor of A.D. Hunt & Co. I will attend to all matters pertaining to the investment of money and the purchase and sale of securities. All business intrusted (*sic*) to me will have my personal attention, and I respectfully solicit orders from parties both in and out of this city. J.J.B. Hilliard."

Robert Worth Bingham and Aleen Kithgow Hilliard aboard the *Mauretania*, 1930.

In 1893, his son, Byron Henning Hilliard, who studied at the University of the South in Sewanee, Tennessee, joined him in business. The firm was then called J.J.B. Hilliard & Son.

J.J.B. Hilliard & Son (1893)

In 1901, J.J.B. Hilliard died and later that year, his son Byron was shot and seriously injured in an accident while on a quail hunting trip. Another of Hilliard's sons, Isaac Hilliard, who was then in his senior year at Princeton University, left school to take his brother's place at the firm in 1902. In 1906, another son, Edward Hobbs Hilliard, who entered Princeton in 1901 and graduated in 1905, also joined the firm as partner.

Isaac returned to Princeton and graduated in 1903, after which he re-joined the firm. He became senior partner in 1905. Byron Hilliard recovered his health enough to return to the firm in 1916, but he died in 1922. In 1924, Byron's widow, the former Aleen (also spelled Aline) Lithgow Muldoon Hilliard, married Robert Worth Bingham, owner of *The Louisville Times*, who had also been the mayor of Louisville and the owner of *The Courier-Journal* since 1918.

Despite the death of Byron Hilliard, the 1920s marked a period of growth for the firm led by senior partner Isaac Hilliard. In 1921, Andrew Jackson Howard, an Indiana native, became a partner in the firm. He was the first partner without the Hilliard name. He had previously worked for the Fidelity Trust Co., and he started at the Hilliard firm as a bookkeeper in 1906. Howard retired from the firm in 1952 and died in 1967. In 1922, Morgan O. Hughes also became a partner. He retired around 1945 and died that year.

In 1924, Isaac Hilliard bought a seat on the New York Stock Exchange. The firm also continued to grow by adding new partners including Marion H. Caldwell, Andrew P. Gies, Robert J. Theobald and Harold W. Walton, who were made partners in 1929. Gies had been with the firm for 14 years; he retired in 1950 and died in 1952. Cardwell, a Kentucky native and the son of a country banker, had been a cashier at the Citizens Union National Bank and was also a veteran of World War I. Walton, an Ohio Wesleyan College graduate and a former bank cashier, and Theobald, who had been with the German Bank and Fidelity & Columbia Trust Co., had both been with the firm for seven years. Theobald left the firm in 1943 to create his own tax consultancy. Walton also left the firm around World War II, and he died in 1983.

In 1934, the third generation of the family joined the firm when Isaac Hilliard's son, Richard Donigan Hilliard, joined J.J.B. Hilliard & Son upon his graduation from Princeton University that year. He served in the Field Artillery during World War II, but he was tragically killed in a car accident in 1948. That year, Isaac Hilliard's other son, J. Henning Hilliard, joined the firm to take his brother's place. (Edward Hilliard's oldest son, Theodore Irwin Hilliard, was also educated at Princeton, but he left to enlist in the US Army during World War II. He was killed in action in 1943. His other son, Edward Hobbs Hilliard Jr., joined the firm but withdrew in 1949. He died in a mountain climbing accident in 1970.)

Born in Louisville, Kentucky, James Henning Hilliard was a graduate of the University of Virginia and the University of Virginia Law School. Known as Henning, he served in the Army Air Force during World War II and worked as a lawyer before joining the family firm in 1948. Henning became a partner in 1951. A.J. Howard, the managing partner, retired

"Way, way back, there was an emphasis on quality and integrity and on running a first-class investment business. Families became attached to us, and now we have sixth generations doing business with us in some cases."

— Henning Hilliard, 1979

from the firm in 1952 and died in 1967. Edward Hobbs Hilliard retired from the firm in 1953. Henning became managing partner in 1954 and remained so until 1971. During Henning's tenure, J.J.B. Hilliard & Son merged with W.L. Lyons & Co. in 1965. The new firm was called J.J.B. Hilliard, W.L. Lyons, and Henning became managing partner. Isaac Hilliard died in 1970, the same year that Marion Cardwell retired. Cardwell died in 1974.

J.J.B. Hilliard, W.L. Lyons (1965)

The history of W.L. Lyons & Co. dates back to the firm of Quigley and Lyons, which was founded in Louisville, Kentucky, in 1854 with partners Thomas Quigley (Edward P. Quigley's father), Henry J. Lyons and Henry Clay Morton, who later became a partner in Hunt & Morton with A.D. Hunt, one of J.J.B. Hilliard & Son's predecessors. According to *The Courier-Journal*, the firm dealt "in gold shares and whiskey receipts." During the Civil War, the partnership was dissolved over differences in Civil War allegiances. Lyons, who supported the Confederacy, founded the firm of Henry J. Lyons and Co.

After Lyons died in 1867, his son, William Lee Lyons, renamed the firm W.L. Lyons & Co. In 1878, W.L. Lyons became a member of the New York Stock Exchange. In the 1900s, the Lyons family established itself in New York City, though branch offices remained in the South, where it engaged in cotton brokerage. Around 1904, the firm was renamed Goldsmith, Wolf & Lyons for partners Frederick T. Goldsmith, Theodore Wolf, Harry J. Lyons and W.L. Lyons. In 1911, the third generation of the family, W.L. Lyons Jr., joined the firm as a partner.

In 1942, W.L. Lyons had actually sold their firm to Merrill Lynch, but "after [the] expiration of a non-competition agreement, [the family re-entered] the brokerage business." In 1952, the firm moved its headquarters back to Louisville and refocused its interests in securities brokerage. By 1969, J.J.B. Hilliard, W.L. Lyons had eight offices in Kentucky, 15 general partners, three special partners and a capital of about $1.5 million. In 1972, the firm became a corporation. By that point, the firm was called Hilliard Lyons for short.

J.J.B. Hilliard, W.L. Lyons, Inc. (1972)

After the firm became a corporation, Henning Hilliard became chairman. In 1979, Henning said, "Way, way back, there was an emphasis on quality and integrity and on running a first-class investment business. Families became attached to us, and now we have sixth generations doing business with us in some cases." According to *The Courier-Journal*, "The firm [continued] to be 'old line' in the sense that it still [devoted] the bulk of its resources to an estimated 75,000 individual investment accounts. In an era when many investment firms give lip service to individuals but room service to large, institutional investors, the policy of Hilliard, Lyons is refreshing."

Henning stepped down as chairman in 1982 and retired as senior executive in 1986. When he retired, he was the last member of the Hilliard and Lyons families to be active in the firm.

Gilbert L. Pamplin succeeded Henning as president and CEO in 1982. Pamplin was a graduate of duPont Manual High School. In 1949, he joined J.J.B. Hilliard & Son as a clerk and became a partner in 1966. In 1988, Pamplin was succeeded as president by William W. Crawford, who also became COO. Crawford had been a partner of W.L. Lyons & Co. since 1964. He stepped down in 1993 and retired in 1995. Pamplin also fully retired that year. They were succeeded by James W. Stuckert, who was named chairman, president and CEO. He had started with W.L. Lyons & Co. and became a partner in 1968. He was named vice chairman of Hilliard Lyons in 1995.

PNC Financial Services Group (1998)

In 1998, the firm was bought by PNC Financial Services Group of Pittsburgh, Pennsylvania. In 2008, PNC Financial Services group transferred ownership of the firm to Hilliard Lyons' employees and Houchens Industries, Inc., a firm in Bowling Green, Kentucky, where it continues in the field of wealth management. $

Susie J. Pak is an Associate Professor in the Department of History at St. John's University (New York). A graduate of Dartmouth College and Cornell University, she is the author of Gentlemen Bankers: The World of J.P. Morgan *(Harvard University Press), a Trustee of the Business History Conference, co-chair of the Columbia University Economic History Seminar and a member of the editorial advisory board of the* Business History Review. *She is also a member of the* Financial History *editorial board.*

About This Series The "Where Are They Now?" Series traces the origins and histories of 207 of the underwriters of the 1956 Ford Motor Company IPO. The research for this series has been generously funded by Charles Royce of The Royce Funds.

THE

GAMBLER

The Rags-to-Riches Story of Deal Maker Kirk Kerkorian

By William C. Rempel

Courtesy of Ron Falahi

"Rifle Right" Kerkorian at age 18 or 19.

The rags-to-riches story of Kirk Kerkorian, the billionaire son of illiterate immigrants from Armenia, reads like a fairytale that opens dark and foreboding.

He was a child of five when his family lost the farm to foreclosure. As a transplanted city boy he sold newspapers for pennies, worked odd jobs to support his struggling parents and dropped out of school after eighth grade. As a skinny teenager with a powerful right hook he tried amateur boxing and hoped to go pro, confident he could help the family with winnings from his fights. An older brother had already suffered brain damage in the ring. As a young man he dreamed of flying but had neither money nor a high school diploma needed for flight training. So, he offered to do farm chores—shoveling manure and milking cows—in trade for tuition and an admission waiver to an air academy.

It turned out to be a timely and brilliant bit of deal making. After a few months in class and in the air, Kerkorian earned his wings and a pilot instructor's license, effectively launching a long and eventually lucrative career in aviation. It not only saved him from physical punishment common in the fight profession, but it also set him on course for the highest ranks of the super rich.

The happier ending didn't come easily or overnight. First, World War II intervened. Kerkorian served as a contract pilot for the Royal Air Force Ferry Command out of Montreal. He flew a wide range of factory-fresh bombers from Canada to Britain for about $1,000 per dangerous crossing. More than 500 fellow crewmen perished, many of them following—as did Kerkorian—a treacherous polar route with only the stars as navigational aids. The daring young aviator completed more than 30 transits, some more harrowing than others, and some to destinations as far away as India.

The savings he accumulated by war's end helped finance a one-plane air charter service back home in Southern California. He nursed and grew it through roller-coaster business cycles for the next two decades, serving on some trips as the ticket agent, cleanup crew, flight mechanic, gas pump operator and pilot.

During particularly difficult economic times, Kerkorian would sometimes shut down operations completely, keeping the company alive and bread on the family table by wheeling and dealing in used planes. One notable junk plane deal turned two wrecks into one of his most profitable aviation trades.

In the early 1950s, Kerkorian acquired the damaged remains of two Lockheed Constellation aircraft—one from Air France and the other from British Overseas Airway. Both had been crippled by hard landings with no passengers aboard. Both had been declared total losses by insurance adjusters. One had a mangled left wing and the other a crumpled right wing. Kerkorian bought them both, shipped them to Bayonne, New Jersey, and with the help of Lockheed technicians used the good parts of each to reassemble a single airworthy replacement.

The master dealmaker went on to lease and eventually sell and re-sell the cannibalized "Connie" multiple times—including to El Al Israeli Airlines—earning Kerkorian five times his investment.

One key to Kerkorian's life-long business success was adaptability. He always advocated having a Plan B…or "keeping a back door open." It was a tactic and a trait he developed growing up on the fringes of poverty when serial evictions, frequent moves and being the new kid in school were familiar parts of his everyday life.

During Kerkorian's long run as an air charter operator, his love of gambling also flourished. Much of his early business was flying gamblers over the mountains between Los Angeles and Las Vegas. He became a regular at many of the casinos—and a skilled craps player as well. He became widely known about town and on the Strip for two highly-respected traits: First, he always paid his markers (gambling debts); second, he never showed his emotions. It was impossible to know from watching him whether Kerkorian was winning or losing. Other gamblers compared him to a cool crooner of the day, calling him "the Perry Como of the craps tables."

Growing up poor and without possessions gave him a certain comfort with risk. He subscribed to the philosophy of his professional gambling friend Nick "the Greek" Dandolos, who said the greatest thrill in life was winning a big bet. The second greatest thrill…was losing a big bet. Outwardly, Kerkorian seemed indifferent to losing. He had survived poverty. He wasn't afraid of it. So, his cool-on-the-outside gambler persona had its roots, too, in those humble beginnings.

Courtesy of Una Davis

Kirk Kerkorian poses in front of his plane.

It wasn't until Kerkorian was approaching his 50s that success nudged him out onto the national stage. And it was his aviation business that attracted all that attention.

In the early 1960s, Kerkorian had taken a major gamble with his still modest but growing charter service, borrowing $5 million on his signature to buy a new DC-8. Trans International Airlines (TIA), as it was called then, became the first charter airline to operate a jetliner. Kerkorian was hoping to pick up long-term Pentagon contracts to move military families and supplies around the world. It worked. It also drew unsolicited investor interest.

The Studebaker Corporation offered to buy the company, assumed Kerkorian's $5 million jetliner debt and topped it all off with a $1 million bonus for Kirk himself. He would stay on to run the charter service as a division of the automaker. And that's how Kerkorian became an overnight millionaire.

The gambler took that windfall and invested in something akin to a bag of magic beans—a 40-acre parcel of sand in Las Vegas that no one else wanted. The property was near other valuable resort properties, but it was blocked from direct and essential access to the Strip by a row of small, residential-sized lots that lined the boulevard. It looked to many that Kerkorian had a million-dollar white elephant—until the dealmaker started dealing. He offered to trade much larger and more desirable plots on his 40-acre site for those small pieces of sand. Several owners jumped at the trade. The swaps were well timed.

When an Atlanta hotel developer came to town shopping for the best place to build Caesars Palace, he came first to Kerkorian. And Kirk became the Caesars landlord. The deal was a tribute to Kerkorian's business instincts. Mostly, it was the result of another masterful series of negotiations by the man a *New York Times* business columnist would describe years later as "the god of all dealmakers."

To this day, the Caesars Palace land deal ranks among the most successful real estate ventures in Las Vegas history. Kerkorian's profits over a five-year span exceeded 900% from an interim landlord lease arrangement, shares of casino revenue and, finally, sale of the land to hotel operators.

Meanwhile, back in California, TIA was proving to be a poor fit as a division of Studebaker. The struggling automaker was accustomed to dealing with $400 car engines, but not $400,000 aircraft motors. Kerkorian and the bean counters didn't get along.

Less than two years after selling TIA, Kerkorian bought it back. He added another jetliner and more defense contracts. In the summer of 1965, he launched a public stock offering. After a slow sales start, TIA stocks caught fire with investors concentrated in the Armenian immigrant communities surrounding Fresno, Kirk's birthplace. His personal holdings soared in value. Later that year, Kerkorian woke up one morning worth $60 million.

For any other businessman, that might have been the pinnacle, the deal to end all deals, a chance to take his winnings and live luxuriously ever after. But Kerkorian was still a gambler searching for the thrill of a big bet.

All the life-changing deal making that had come before would pale by comparison to what Kerkorian did next as he finished up the 1960s with a flurry of wheeling and dealing that would secure his place among the great dealmakers of capitalist history.

Kerkorian's first play with his new wealth was to gamble on gambling. He paid $5 million for an 82-acre former auto speedway site adjacent to the city's new convention center. He announced plans to build the International Hotel and Casino, the world's biggest hotel with the world's biggest gaming floor. Locals were aghast. It was on Paradise Road, a half-mile off the Strip. Predictions of financial disaster spread through town. Then Howard Hughes did his best to scare Kerkorian away.

Hughes, the world's richest man, had arrived in Las Vegas a few months earlier and started buying up existing resorts to shelter taxes from his half-billion-dollar sale of TWA. Hughes hated competition and wanted no rivals, least of all someone building the world's biggest anything in his town.

Las Vegas wasn't big enough "for two tigers," Hughes told his top aide, Robert Maheu. The billionaire industrialist did more than disparage Kerkorian. Privately he warned his bankers to have nothing to do with his rival. Hughes also announced plans to invest $150 million expanding his newly-acquired Sands Hotel. It was a ruse to make Kerkorian reconsider breaking ground on the International. When Kerkorian went ahead and started the bulldozers, Hughes tried to buy him out,

offering to acquire the International site and reimburse him for all of his costs.

But Kerkorian kept building.

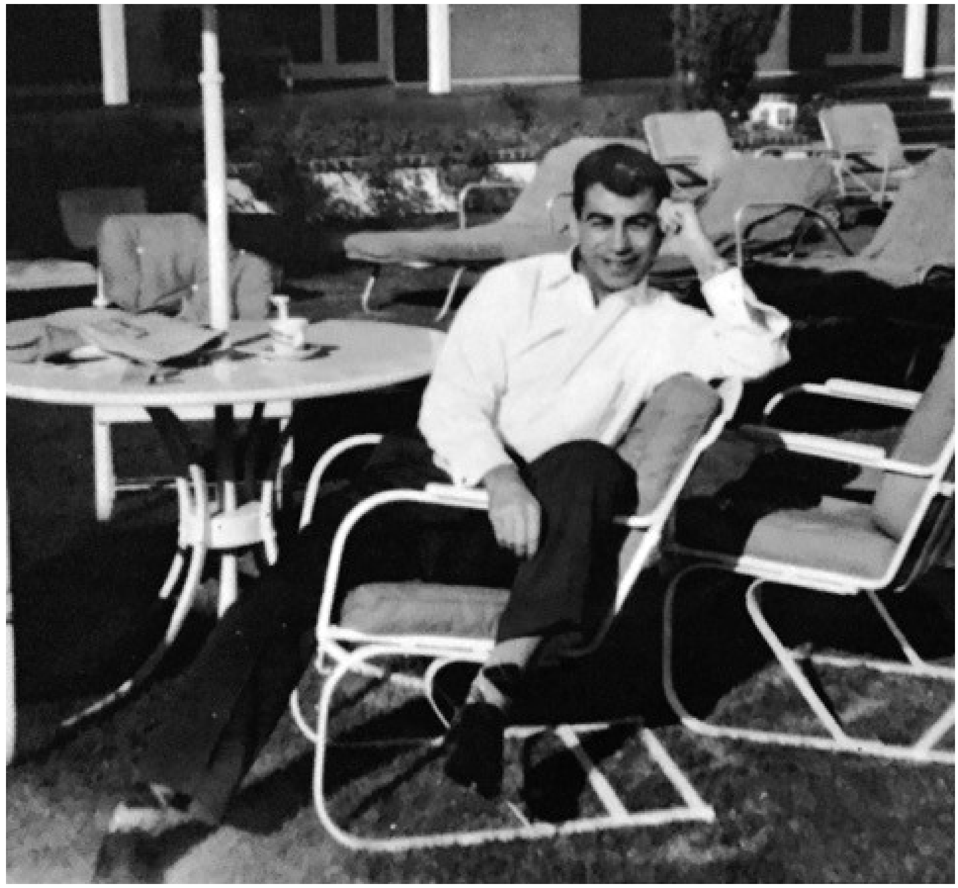
Early in 1968, about six months after his 50th birthday, Kerkorian closed another massive transaction that made Hughes's threats and bluster even less relevant. He sold Trans International again, this time outright to San Francisco-based Transamerica Corporation. For the first time in 20 years, the aviator was no longer in the aviation business. But he was still a gambler and on a roll, feeling the time was right to go for an even bigger score. His net worth swelled to $200 million.

Kerkorian placed the first in a series of bets on something he called "the leisure industry." His plan was to assemble a collection of resort, transportation and entertainment properties, a vision that would alter the landscapes of Las Vegas, Hollywood and Detroit.

With steel girders still going up on Paradise Road and Hughes still trying to run him out of Las Vegas, Kerkorian surprised Wall Street with a $67.5 million tender offer for the nation's oldest commercial air carrier, Los Angeles-based Western Air Lines. Part of the attraction was economic. The regional gem of an airline was hoping to be awarded profitable new routes to Hawaii. Another attraction was personal. Kerkorian was having regrets—some might call them separation anxieties—since selling off his long-held charter airline.

However, on his way to becoming Western's largest shareholder, Kerkorian also picked up another rival. The airline's bombastic president, Terrell C. Drinkwater, and his handpicked board of directors greeted Kerkorian's unexpected investment with suspicion that morphed quickly into hostility. Efforts to reassure them that Kerkorian supported management and planned no changes at the top failed to ease tensions. Drinkwater opposed any power sharing and worked to block Kerkorian's influence with Western's board.

Back in Las Vegas, Kerkorian's other rival was trying a new tactic. Hughes had bought the unfinished and much more modest Landmark Hotel and Casino out of bankruptcy. It was, however, just across Paradise Road from the International. Hughes was going to bring competition to Kerkorian's doorstep. The showdown on Paradise would feature dueling grand opening extravaganzas.



Courtesy of Una Davis

Kirk Kerkorian in the early- to mid-1950s.

But Kerkorian relished competition, and Hughes was playing into his hands. The world's biggest hotel would open with some of the world's biggest stars. Hughes headlined with comedian Danny Thomas who drew a respectable crowd. Kerkorian opened with "Funny Girl" Barbra Streisand, followed immediately by Elvis Presley, smashing every box office record in Las Vegas history.

It marked the end of Hughes's frustrated bid for supremacy. Kerkorian would be the last tiger standing in Las Vegas. He would go on to transform the gambling mecca, three times building the world's biggest hotels. Hughes later complained to Maheu that Kerkorian was "the first man I couldn't buy or break."

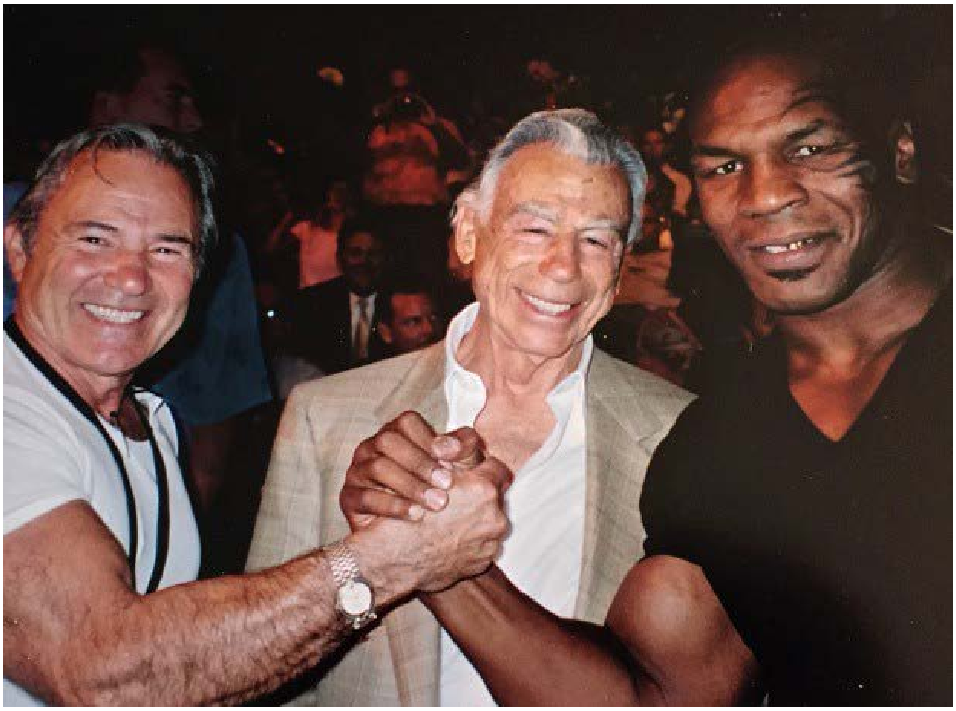
Within days of the International Hotel's sensational opening—and while still sparring with Drinkwater over a place on the board of Western Air Lines—Kerkorian shoved another stack of chips into play with another tender offer. This time he was betting on Hollywood's crown jewel, MGM studios.

In 1969, the legendary movie company that had produced such classics at "Gone With the Wind" and "The Wizard of Oz" was neck-deep in red ink and sinking fast. It was losing $10 million a month with likely box office duds projected well into the next year.

But Kerkorian saw hidden value, even before the age of cable television, in MGM's extensive film archives. The studio's real estate holdings included a back lot looking obsolete as more filming was scheduled on location. And Kerkorian saw a potential dollar value even in the cache of the studio's name, a trademark conveying images of class and glamour. He wanted to own what he called those "three magic letters."

Once again, however, he found himself locked in competition with a strong-willed rival, this time MGM's newly-appointed CEO, Edgar M. Bronfman, Sr. The Canadian-born financier also ran US operations for his family's Seagram's liquor empire and was a major MGM investor. Bronfman and his MGM board had anticipated a possible bid from Hughes. But "Kerkorian who?" was their first reaction to this surprise tender offer.

Bronfman challenged Kerkorian in court and in the boardroom, forcing Kerkorian


Courtesy of Gene Kilroy

Left to right: Ron Falahi, Kirk Kerkorian and former professional boxer "Iron Mike" Tyson.

into a globe-hopping search for loans to finance additional stock buys. But by October 1969, the war was over. Bronfman was ousted, and the Kerkorian team installed. MGM's corporate headquarters in New York was moved back to Southern California.

One week after completing his MGM takeover, Kerkorian also tightened his grip on Western Air Lines. His increasingly bitter rival Drinkwater was "kicked upstairs" to a ceremonial post on the board of directors. Kerkorian picked his replacement.

The turbulent 1960s were coming to an end, a decade of social and political change for the country that turned out to be Kerkorian's breakout decade as well—the formative years of an unlikely tycoon.

To the US financial media, he seemed to have burst onto the scene from out of nowhere, and they weren't far off. The penniless dropout who shoveled manure for his crack at the American dream broke into big-time media as the focus of a lengthy feature in *Fortune* magazine's November 1969 edition. The article explored Kerkorian's leisure industry vision and estimated his net worth as a movie mogul, airline owner and casino magnate at $260 million.

In what would turn out to be one of only a few press interviews in his lifetime, the 52-year-old Kerkorian served notice to *Fortune* that he had no interest in early retirement. "What would you have me do—sit around with a mint julep in my hand?"

At the same time, he acknowledged having come a long way from his humble roots. "There was a time when I was aiming at $100,000. Then, I thought I'd have it made if I got a million dollars. Now, it isn't the money."

Kerkorian would go on to remake Las Vegas, controlling the town's top gaming properties and taking on a new generation of casino tycoons more than 30 years later when he bought out Steve Wynn's Mirage holdings.

Kerkorian would buy and sell MGM studios three times, clearing billions in profits, including an historic deal with cable pioneer Ted Turner who paid Kerkorian a billion dollars for what amounted to MGM's film library, a popular source of cable content to this day.

And Kerkorian would make MGM's Leo the Lion logo even more famous around the world as the trademark of MGM Resorts International in the leisure industry he envisioned and then defined.

Still, when he died in 2015 at the age of 98, he was the least known of America's financial giants—and that's just how he wanted it. The media-shy self-made billionaire spent most of his business life trying to avoid personal attention and the notoriety of celebrity, even as his bold ventures captured headlines across the country. He never gave speeches. The daring aviator and fearless gambler was terrified of public speaking.

He put his name on none of his projects—not on a building or street sign, not even on a reserved parking spot at any of his hotels or the movie studio. He ranked as high as seventh on the *Forbes* list of billionaires, yet he often traveled without an entourage, walked to lunch in Beverly Hills without bodyguards and usually drove his own car—typically a Ford Taurus or a Jeep Cherokee. He gave billions to charity, yet he wanted no public tributes or recognition of any kind.

At various times he was the largest stockholder in each of America's "Big Three" automakers. His bid to take the Chrysler Corporation private in the mid-1990s was Kerkorian's first big public failure. Nonetheless, he made nearly $3 billion on his soaring stock value. He shrugged off the profit. "The charities are gonna have fun with that," he told a financial advisor.

One of the biggest beneficiaries of Kerkorian's largesse was his ancestral home of Armenia. After a massive 1988 earthquake killed thousands and devastated the poor country's roads, bridges and housing, Kerkorian launched an airlift of food, medical supplies and building material on a scale unknown since the Berlin Airlift in 1946.

More than 100 flights delivered relief and raw materials for years, spanning two decades and earning Kerkorian the gratitude and affection of the Armenian nation. There was enthusiasm for honoring him with parks and statues, but at Kerkorian's insistence, no such monuments were erected during his lifetime.

"Charity isn't charity if it expects anything in return," Kerkorian said. It was the philosophy of a rich man who never lost touch with the poor kid wielding that manure shovel. $

William C. Rempel is the author of The Gambler: How Penniless Dropout Kirk Kerkorian Became the Greatest Deal Maker in Capitalist History. *He was an investigative reporter and editor for the Los Angeles Times, where he worked for 36 years.*

This article was adapted from *The Gambler: How Penniless Dropout Kirk Kerkorian Became the Greatest Deal Maker in Capitalist History* (Dey Street Books, 2018).

MY FATHER'S BUSINESS

The Small-Town Origins of Dollar General

By Cal Turner, Jr.

Scottsville, Kentucky, was a great place for a kid to grow up, but it was a terrible place for a wholesale business. Nashville, 60 miles to the south, or Louisville, 120 miles to the north, would have been much better. Fewer than 2,000 people lived in Scottsville in 1939, and the roads leading in and out were winding and rutted. To my father and my grandfather, though, Scottsville was the center of the universe. Besides, they had just bought a big brick building on East Main Street—they had gotten it for half price, and a Turner will buy anything for half price—and so Scottsville it was.

My grandfather, James Luther Turner, was one of the smartest men I have ever known. He was also one of the hardest working. He was just 11 when his father died in a freak wrestling accident in 1902, and as the oldest of four children, he left school to run the family farm. I picture him in those days as a skinny kid walking behind their mule, turning up dusty Macon County, Tennessee, dirt so he could plant corn for the hogs, vegetables for the family and tobacco for cash.

He sold his first tobacco crop for $190 and put part of the money into savings. When he said, as he often did, "You need to save something from every paycheck," it was because he had done it and had learned that it worked. From the beginning, he dreamed of a better life, and at 24, he was asked to manage the local co-op by farmers who recognized him as the hardest-working young man around. He had by that time saved $300, and he opened a bridle shop in a refurbished woodshed behind the co-op, which amounted to a general store, making and selling bridles, harnesses and saddles in his spare time. He would set out on foot before dawn, carrying a lunch as he walked the three miles from the farm to the co-op, and walk back at night.

He and his wife, Josiephine—they married when he was 17—lost two children in infancy, and they devoted themselves tirelessly to their third and only surviving child, Hurley Calister, born May 28, 1915.

Courtesy of Dollar General

The original warehouse in Scottsville, Kentucky; the big brick building was bought at half price.

Courtesy of the Turner Family

Baby picture of Cal Turner, Jr.

Hurley was the surname of a prominent area man, and my grandmother, whose own name was spelled with a country flourish, just liked the sound of "Calister."

Luther worked at the co-op for about a year—after running his own farm, he wasn't much for bosses. He and his brother-in-law bought the inventory of a small general store and used it to start their own in Adolphus, across the state line in Allen County, Kentucky. In 1920, just after Luther bought a second store, the nation entered a severe recession. His stores failed, and he figured it was time to try working for someone else again.

He approached Nashville's Dobson-Cannon Wholesale Grocery Company, which was less than impressed with his third-grade education but hired him as a salesman when he offered to work on straight commission. "Just give me your sales sheets and pay me for what I sell," he told them. A year later, he jumped at the chance to work for Neely Harwell, a Nashville dry goods wholesaler. He loaded samples of their merchandise into his car and showed them to store owners all over southern Kentucky and middle Tennessee. A natural salesman, he flourished, although he never lost the dream of returning to his

Courtesy of The Turner Family

An early family photo of Josiephine and Luther Turner with a dapper young Calister Turner.

own business. In the meantime, he learned all he could and saved his money.

It says a great deal about Luther Turner that he was able to turn his third-grade education into a plus. He was convinced that everyone he met was smarter than he, and that he needed to learn something from each of them. He became a first-rate observer, a great listener and a dedicated student of life. What he practiced was more than empathy. It involved valuing the other person and his or her information, insight and perspective.

With a steady job and a son who had just turned 10, Luther decided the family needed the advantages of a town. The closest one was Scottsville, and that's where they moved. Luther found and bought the cheapest house on the best street in town, putting his wife and son in the finest surroundings he could afford.

Living on $125 of the $225 he earned monthly from Neely Harwell, Luther used the rest to open Turner's Bargain Store on South Court Street. That was where Cal, who helped out when he could, took his first independent step into the world of retail in the summer of 1929. He and his friend Howard Shrum, whose father owned the shoe store next door, teamed up and sold lemonade on the sidewalk. It was all you could drink for a nickel. They gave people plenty of ice, knowing that the colder the lemonade, the better the chance their customers, gulping in the hot summer sun, would get a "brain freeze" after half a glass or so. Cal and Howard couldn't help it if "all you can drink" didn't turn out to be very much. They made $12.

A few months later, the stock market crashed on Black Friday, and the Great Depression soon followed. It would be much worse than the downturn of a decade earlier, but Luther was much better prepared. His years on the road, in and out of the little department stores found in nearly every town, had taught him volumes. He had seen the business as a wholesaler and a retailer, from the perspectives of owners and customers, in good times and bad. He knew their merchandise, their cash flows, their strengths and weaknesses. He was by this time part psychologist, part philosopher and all businessman.

When the Great Depression hit, Cal was in the eighth grade, which meant he had completed four more years of schooling than his father. He was especially good with numbers, and Luther began taking him on the road.

Cal was a quick study. He picked up on what made customers' eyes light up and what left them cold. No one in those little towns had much money. They wanted value and knew how to spot it.

Luther saw that many of these stores weren't going to make it. They had mortgages, utilities, vendors and other creditors to pay, but their customers lacked cash, so they simply couldn't move their merchandise at anything close to what they had in it. What had happened to him and his two little stores in the early 1920s was happening all over the rural South in the 1930s. He also knew that where there was failure, there was opportunity. He had opened that first store with merchandise from a failed retailer. Here was the chance to do that with store after store. Someone would be buying the merchandise at bargain-basement prices, on the courthouse steps if nowhere else. It might as well be Luther.

In photos from that era, with his suit and tie, slim build and glasses, Luther looked like a young Harry Truman. But behind the glasses, there was a fatherless farm boy who started with nothing, facing the early days of the worst depression in the country's history. If there was ever a test of a man's mettle and a nation's promise, this was it, but it was clear that he had already come a great distance from his days of walking behind a mule in that Tennessee dirt.

As the Great Depression deepened, Luther began buying the inventories of failed stores, often competing with other bidders to do so. He and Cal would show up early on auction day, and Cal learned quickly from Luther how to size up merchandise and assign value. It helped that Cal was a whiz with numbers. He'd walk around with a pad and pencil, listing items and doing the figuring.

"I count 62 pairs of shoes," Cal might say, "and it looks like an average price of a dollar twenty-five." He'd go through as much as he could this way—sacks of sugar, baby dresses, rolls of wallpaper, whatever they had—writing his approximations on a note pad. He might determine that the entire stock was worth $4,500, and Luther would try to buy it for $2,000 or so. My father is no longer here to ask, but I wonder now whether my practical grandfather took cash with him to those sales, since

A peaceful Cal Turner, Sr. in the yard at home.

Courtesy of the Turner Family

Courtesy of the Turner Family

Head table at the store party, with the entire Turner family present.

that seems most logical—he was, after all, a stranger at many of them.

When theirs was the winning bid, Luther would liquidate the stock quickly, holding a "going out of business" sale, sometimes hiring someone to handle it, sometimes staying on to do it himself, with Cal at his side. Anything that didn't sell he could pack up and take to his own store in Scottsville or sell to another retailer. Now and then he would scout around for another merchant or middleman and sell the whole lot at a small markup. And on a couple of rare occasions, where he thought with the right manager he could turn a store around, he simply bought it outright.

Sometimes he needed short-term bank loans to make the purchases, and the banks were more than happy to work with him. His track record spoke for itself. He used the stock as collateral, and they knew they'd have their money back in 60 or 90 days. He was "bankable" in a way that farmers, whose crops might not come in, were not. At other times, he would take on a short-term partner. They would buy a store together, with a handshake as the only contract. They would divide the goods as evenly as possible and flip a coin to see who got what.

Those sales helped make a businessman of young Cal. As he and his dad went from store to store, month after month and year after year, he became more like a partner than simply a helpful son, even though he was still in high school.

In fact, my dad did very well at Scottsville High, even finding time to become a terrific basketball player, all while keeping up a sometimes daunting work schedule in the bargain store and in another that Luther owned 35 miles away in Hartsville, Tennessee. My dad would often get up early on Saturday mornings to make the drive and spend the day, and sometimes the evening, at the store. There were also times when he would leave the house with Luther as early as 1:00 am to drive to a bankruptcy sale.

Meanwhile, Turner's Bargain Store continued to do well. The importance of tobacco as a local crop gave my grandfather one of his best early promotional opportunities. Farmers sold their tobacco late in the fall, receiving checks they turned into the only cash many of them saw all year. Luther knew those sale barns were cold, and he came up with the idea of giving each farmer at those sales a good right-hand work glove with a note attached. It said, "Get the mate to me free at Turner's Bargain Store. We will gladly cash your check." The farmers would go to the store and get the mate to a good pair of gloves, then cash their checks. There they'd be, inside a store loaded with useful merchandise, with a year's worth of crop money in their hands.

Courtesy of the Turner Family

Profile of Cal Turner, Sr., driving a 1955 Pontiac.

Cal enrolled at Vanderbilt University in Nashville in the fall of 1933 to study engineering. The only admission requirement was Luther's ability to pay the tuition.

Given their humble beginnings, Luther and Josie were thrilled that their son was earning a college degree, and they bought a house on Villa Place, just a few blocks from the school. My dad played on the freshman basketball team, but he quickly discovered engineering wasn't for him. School in general didn't interest him anymore. Business did. After his freshman year, he took what his parents thought was a summer job at Neely Harwell. Then, as fall approached, he broke it to them that he wasn't going back to school.

On the side, my dad opened a store of his own in Dupontonia, a DuPont company town on the Cumberland River north of Nashville. Since he was a good fellow and his prices were right, he felt he deserved people's business. The locals didn't see it that way, and it went under. Luther, who was not averse to letting Cal learn some of his lessons the hard way, simply watched from the sidelines. Then, the two of them went back to the business of buying and liquidating the inventories of troubled stores.

My dad was dating Laura Katherine Goad, who was a year behind him in high school. She came from a family of lawyers and politicians on one side and businesspeople on the other. In a social sense, the Goads were above the station of the Turners, no matter how far they had come from that Tennessee farm. The Goads would produce judges and politicians, while the Kemps—her mother's side—owned a store. But Cal—good-looking, dapper and filled with self-confidence—thought he could accomplish pretty much anything, including winning Laura.

He still carried some of the earthiness that went with the family's rural background, and that wasn't always an endearing trait. Once, when he and Laura broke up for a short time, my dad got a date with her rival, Lattie Miller Graves, the doctor's daughter. The two of them drove by Laura's house in his new convertible with the top down and the radio blaring. Fortunately, my mother later decided to take him back, but I'm convinced that if her father hadn't died when he did—in an automobile accident at the age of 42, when my mother was 18—she would never have married him.

The Turners were uneducated farm people who had moved into town, and my guess is that Luther Turner's young son, Cal, would not have been good enough for Frank Goad's only daughter. As it was, her joyfulness and free spirit and his charm and confidence made for a great match. One of their favorite pastimes was to drive out to the bridge on Gallatin Road south of town, park the car, turn up the radio and dance, high above the creek below.

They married on October 24, 1936. Daddy was as proud of their first child, Laura Josephine, born December 26, 1937, as of anything he'd ever done, and one day he took her into the store and set her lovingly atop a display pile of fabric. As the customers gathered around, she wet herself, soaking both her diaper and the cloth.

The Depression hadn't lifted, but the newlyweds entered a world in which the economic landscape had at least stabilized. Unemployment had dropped from nearly 25% in 1933 to 17% in 1939. It was possible to see who had outlasted the storm. Those retailers who remained needed goods, and it was my dad who had the idea of going into wholesaling. At 24, he had learned his father's lessons well and had saved $5,000—equivalent to nearly $90,000 today. He knew he needed more, so he asked Luther for $5,000 as well. The building that had been offered for sale in Scottsville would be a great location, the price was right and Luther said yes. With that, they were in the wholesale business.

J.L. Turner and Son began selling to independent retailers in Kentucky and Tennessee. Cal ordered and brought in stock, and he hit the road with his samples on selling trips. By the end of the first year, he had sold $65,000 worth of goods, and they were off and running. $

Cal Turner, Jr. grew up in a Scottsville, Kentucky, household where business and family were one. After graduating Vanderbilt University, he served for three years as an officer in the United States Navy before beginning his career at Dollar General. He served as CEO for 37 years, and during his tenure, the number of DG stores rose from 150, with sales of $40 million, to more than 6,000, with sales in excess of $6 billion.

Photos by PWCC

FROM HOBBY TO INVESTMENT

The History and Rise of Trading Cards as a Tradable Asset Class

By Brent Huigens

By now it's a familiar story. In many industries, the Internet has become a democratizing force that has lowered costs, increased transparency and transferred more power to individuals—and investment is no exception. Data and research tools that were once available exclusively to brokers are now accessible online to anyone, while online brokerages, robo-advisors and equity crowdfunding platforms provide further opportunity for individuals to take control of their portfolios, continuing and extending the trend that began in earnest with the shift from traditional pensions to self-directed plans such as 401(k)s.

As individuals become more involved in managing their investments, they are taking a closer look at potential ways to diversify their holdings. One category that is attracting increasing interest is collectibles. The question of whether collectibles can be considered a legitimate investment has been debated at length over the years, and though the answer has been somewhat inconclusive, the general consensus is to treat collectibles with a healthy dose of skepticism.

Of course, the type of object being collected matters (Old Master paintings get more respect than Beanie Babies), but the core issue is that most collectibles don't have any intrinsic value of their own, nor do they produce a cash flow; they aren't like a house that provides shelter, or stocks that pay dividends or bonds that pay interest. They are worth only what someone else is willing to pay for them, and that willingness is notoriously fickle and subject to fads.

Technology, though, can change the calculus. The same Internet revolution that has given individuals more control over their investments has also transformed the market for collectibles. In the specific case of trading cards, improved technology has reduced costs and friction for both buyers and sellers, creating a more liquid and less fragmented marketplace. Technology has also facilitated the tracking and processing of historical data, creating greater transparency and allowing for more effective analysis and more informed valuations. Together, these developments are enabling the emergence of trading cards as a valid alternative asset class.

Left to right: 2000 Tom Brady rookie card; 1910 T206 Ty Cobb "Red Portrait"; and 1933 Babe Ruth, Goudey Gum Company card.

History of Trading Cards as Collectors' Items

Most people collect something at some point in their lives. Psychologists have identified a vast range of motivations behind the urge to collect, including pride in amassing beautiful objects, the satisfaction of getting a good deal when a seller fails to recognize the true value of what he or she is offering, the thrill of the hunt in seeking out rare items, the desire to create a legacy to pass on, the social aspect of participating in a sub-community of like-minded enthusiasts and simple nostalgia, among many other conscious and unconscious motives.

Trading cards are among the most popular types of collectibles. They trace their roots back to the 1800s, when people began collecting small illustrated "trade cards" that companies printed first as a form of advertising and then as giveaways included with products to boost sales. Tobacco companies in particular adopted this practice, as the cards offered the added benefit of acting as a stiffener to protect the cigarettes.

In 1886, Goodwin & Company began producing cards featuring baseball players and created one of the first collectible sets. Other cigarette companies followed suit, and collectible cards featuring athletes from other sports, such as hockey, soon became popular as well.

Candy and chewing gum companies eventually took over the trading card market from tobacco companies. The Topps chewing gum company, which printed its first baseball card set in 1951, has since become the market leader in the trading card industry.

The collectible trading card market also includes non-sports cards (for example, cards for movies, TV shows, comics and current events) and cards used in collectible card games (such as Pokémon, Yu-Gi-Oh! and Magic the Gathering, or digital Hearthstone cards). However, sports-related cards have the longest history and are often the most coveted and valuable.

Sports card values are influenced by scarcity and condition, as well as more intangible factors like the player's success (current performance, if still active, as well as longer term) and the performance of the team. The most valuable card ever, which sold for $3.12 million in 2016, was a 1909 T206 Honus Wagner, produced by the American Tobacco Company.

After decades of being collected primarily by children and hobbyists, baseball cards suddenly soared in value in the late 1980s. The first price guides appeared, and the press hyped the value of sports cards as an investment. Third-party accreditation companies emerged as well, offering an industry standard to help collectors and investors value their collections. These professional grading services, used by all serious collectors today, will authenticate a card, grade its condition on a 10-point scale, seal it in a tamper-proof plastic holder and assign it a unique serial number.

A speculative bubble formed, and card companies rushed to print millions of cards to cash in on the dramatic increase in demand. Children were essentially priced out of the market during the boom years, and cards purchased by speculators were, of course, kept in mint condition, further ensuring oversupply (in contrast, many vintage cards, not initially recognized as having any particular value, have been lost or destroyed over the years). The bubble burst spectacularly, and many observers today remain convinced that trading card values are too volatile to allow cards to be considered a genuine alternative investment.

It's true that most ungraded mass-produced trading cards from the 1980s and 1990s are worth little today, and that modern cards are inherently more volatile, as active or recent players' legacies are not yet fully established. However, many cards, both vintage and modern, have continued to appreciate, and elite specimens have held their value better than more common items.

In addition, technology developments since the mid-1990s have done for trading cards what electronic trading platforms have done for securities and other tradable asset classes, increasing price transparency and execution speed, while reducing transaction costs.

While the idea of a National Best Bid/Offer (NBBO) for baseball cards may be a bit far off, the rise of online auction platforms—such as eBay—has enabled buyers and sellers to connect faster and more seamlessly than ever before. Prices and spreads on each transaction have become more apparent as a result. Moreover, the increased volume facilitated by auction platforms like eBay has worked to bring down trading costs, or commissions paid to the auction house.

A more efficient market system has made it much easier for collectors to see returns on investment. Previously, individual collectors would find it virtually impossible to make much of a profit if they had to purchase at retail and then sell to a dealer or at auction on consignment. The best margins were achieved by finding hidden gems at estate sales or flea markets and then selling at swap meets—a process that may have been highly enjoyable but was undeniably time consuming. The ease of buying and selling online has created a much more liquid and less fragmented marketplace.

What's more: the availability of historical market data amassable from online auctions has simplified the performance tracking process. Investors require access to market data, analytics and information on historical returns in order to properly vet an investment opportunity, and new technology allows for the aggregation and analysis of sales data in a way that was impossible just a few years ago.

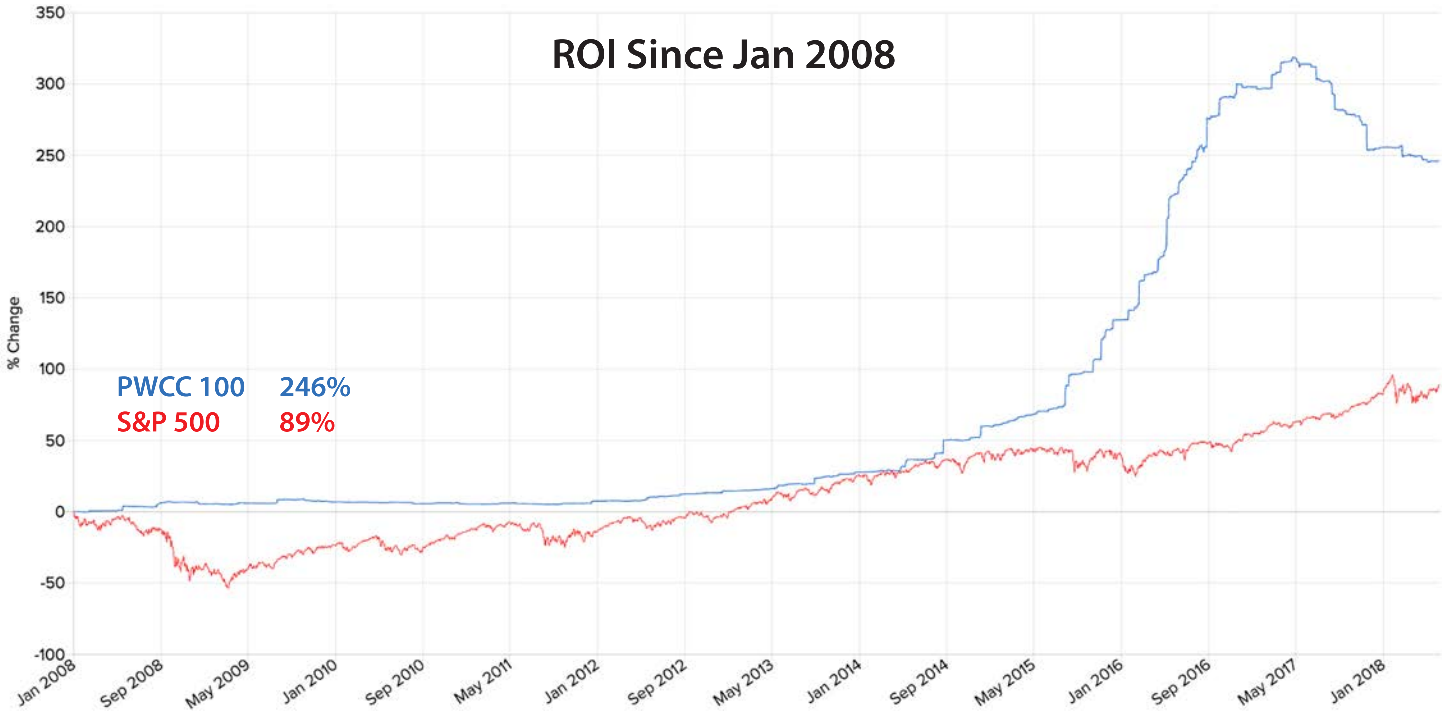
Regardless of whether a collector relishes the in-person treasure hunt at estate sales and antique shops or prefers the efficiency of an online auction, the availability of extensive sales data makes it much easier to value cards accurately, reducing risk.

Trading Card Market Indices

PWCC Marketplace*, the largest seller of investment-caliber trading cards, has recently begun tracking and cataloguing performance data for trading cards, with the idea that such data will inspire a more efficient, informed marketplace and greater confidence among would-be investors. PWCC recently developed three new market indices that demonstrate the investment performance of professionally graded trading cards over the past decade.

The PWCC Top 100, PWCC Top 500 and PWCC Top 2500 represent the top 100, 500 and 2,500 most valuable trading cards, respectively, as defined by sales price, tracked against the S&P 500 over the past 10 years. The research team will develop additional indices focusing on subsets of the larger market (e.g., pre-war baseball, modern basketball, etc.) as the collection of available data grows.

PWCC uses its own software to capture trading card value, based on original sales data obtained through a partnership



PWCC 100 Index representing the investment performance of professionally-graded trading cards over the past decade. Data compiled as of June 8, 2018.

with VintageCardPrices.com. PWCC has been collecting and tracking these figures since 2008.

To be included in the indices, all cards must have traded a minimum of 10 times over the past 10 years, with at least two sales in the last 12 months. This means that many of the most valuable cards (for example, the 1909 T206 Honus Wagner or 1952 Topps Mickey Mantle in grades higher than PSA 8) are not included because they do not meet the trade frequency requirement. The PWCC indices are dynamic, and cards are included in or omitted from the indices in compliance with the trade frequency requirement.

An outlier algorithm is triggered if a recent sale widely over- or under-performs current market averages; subsequent sales will either validate the flagged sale for inclusion in the index or confirm its omission as an outlier.

Sales that satisfy both the trade frequency and outlier criteria are sorted by average market sales price, which is calculated as the average of the last three auction sales, to avoid inaccurate representation of volatility due to a single sale, and then segmented into the various PWCC indices.

Only auction sales are included in the indices, as private or buy-it-now retail sales do not represent a true gauge of an open supply-and-demand marketplace. All data consist of cards graded by Professional Sports Authenticator (PSA). These cards represent 80% of the market population for graded trading cards and, thus, afford the greatest number of directly comparable sales.

Only grades PSA 3 and up are considered for years 1929 and prior, grades PSA 4 and up for years 1930–1949, grades PSA 5 and up for years 1950–1960, grades PSA 7 and up for years 1961–1969, grades PSA 8 and up for years 1970–1979 and grades PSA 9 and up for years 1980 and after. Cards from 2000 and later are not included in the indices at this time; however, most cards (approximately 98%, according to PWCC's calculations) that trade with sufficient frequency and value to be considered investment-caliber were manufactured before 1987.

PWCC's data show that investment-caliber trading cards have continued to perform well in a variety of market conditions over the past decade, including during the Great Recession.

As of June 8, 2018, the S&P 500 had achieved an 89% return on investment (ROI) over the past 10 years, while the PWCC Top 500 index achieved a 10-year ROI of 146%. The PWCC Top 100 performed even better, generating a 10-year ROI of 246% (see Figure 1). The PWCC 2500 slightly underperformed the S&P 500 but still provided a very respectable 72% ROI.

Although 10 years is not a long track record in the grand scheme of things—and, as with any investment, past performance is no guarantee of future results—the indices do show that the most valuable vintage cards have consistently outperformed stocks over the past decade.

The first stock index, the Dow Jones Industrial Average, introduced in 1896, proved to be an extremely useful concept, enabling investors to better understand the overall movements of the stock market and providing a benchmark for investment performance. Other indices soon followed, and today there are stock indices of all shapes and sizes, both investable and benchmark-only. As trading cards transition from what was once purely a hobby into a real alternative asset class, collectors

will need many of the same types of tools and statistics to help them make informed investment decisions.

An Appealing Investment

Most people who begin collecting trading cards and other ephemera—like those who collect artworks or fine wine—do so primarily out of a passion for the objects themselves. They may not have any particular exit strategy in mind. But rare items will naturally increase in value if demand outstrips supply, and serious collectors do make acquisitions with an eye to their long-term resale value as well.

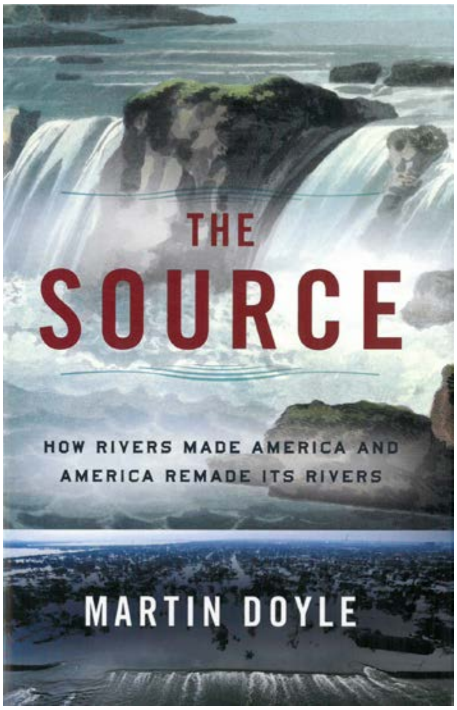
More and more people are attracted to the idea of investing in collectibles to diversify their portfolios or hedge against inflation, and many find that owning physical objects offers a different, more visceral type of pleasure than the satisfaction provided by looking at a string of numbers in an account balance. Particularly in this era of digital everything, vintage items hold undeniable appeal.

Like works of art, trading cards combine aesthetics and the sheer enjoyment of collecting. However, unlike art and other alternative investments, trading cards are highly accessible, even to small investors. And because trading cards are not one-of-a-kind items like artworks, they lend themselves more readily to stock-market-style analytics, which require millions of data points. Seeing how a specific item and its peers have fared in the market, both recently and over time, can help collectors avoid overpaying and mitigate risk.

No investment is without risk, of course, and no financial advisor on earth would counsel collectors to put their entire life savings in baseball cards, but when acquired judiciously, with an eye to market analysis, trading cards can be a valid component of a diversified investment portfolio. $

> **Brent Huigens is the CEO of PWCC Marketplace. The PWCC indices can be found at www.pwccmarketplace.com/market-indices.*

Editor's Note: The Museum of American Finance does not endorse any particular investment product or index.



The Source: How Rivers Made America and America Remade its Rivers

By Martin Doyle

In telling the story of the nation's three million miles of rivers, Martin Doyle weaves elements of history, geography, navigation, financing, taxation and regulation into an entertaining and informative volume with a particularly descriptive subtitle. His introduction suggests that the country's 250,000 waterways have shaped American life since the beginning. They still provide the borders of numerous states and cities and serve as important transportation highways in every region of America. Their flows have been life-sustaining, enabling the growth and development of major population centers.

However, as this professor of River Systems Science and Policy at Duke University also notes, their uncontrolled movements have also disrupted the social and commercial fabric of many communities. All readers will learn how both private and public entities have worked to manage many rivers' courses (with dams, locks or levees), dredge their channels, and allocate their flows of water to various communities. The *Financial History* reader will take more note of the importance of many financing mechanisms that enabled and supported those activities over the course of the country's 242-year history.

Early in his narrative, Doyle recounts the story of the first public-private effort to tame a river. In 1785, delegates from Maryland and Virginia met to establish rules for governing the business of the Potomac Company as it worked to improve navigation and increase the flow of commercial traffic along the river that separated those two states. As settlers moved inland, more states authorized the establishment of private river navigation companies and canal companies to improve the effectiveness of their own regions' rivers as highways of commercial activity. They supported those efforts with both loans and direct investments. The cost of construction and the geographic difficulties of terrain caused most of those expensive efforts to fail. Even successful efforts rarely achieved the financial returns envisioned by state legislatures that had authorized more than 85% of the country's public debt by the end of the 1830s. As Doyle notes, the highly-successful Eric Canal was the exception not the norm in those early days of building the nation's infrastructure.

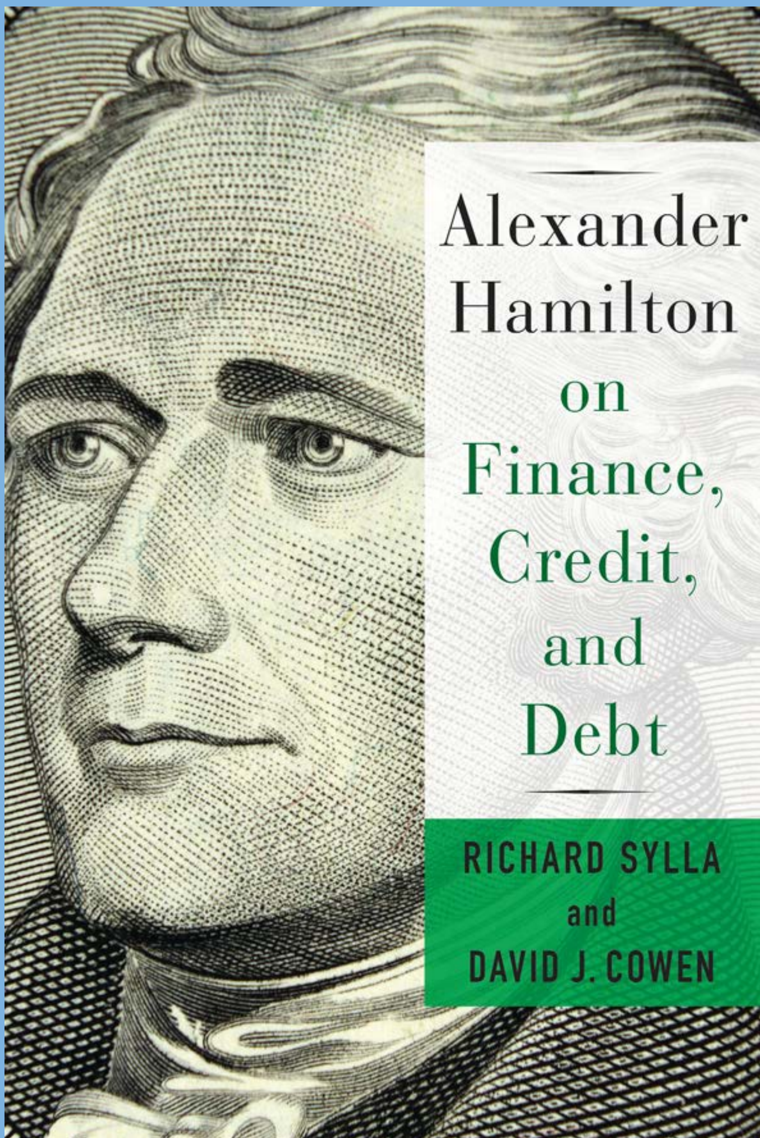
Throughout the book's 305 pages, Doyle frequently writes as an historian. He notes the 1824 *Gibbons v. Ogden* decision that clarified the role of the federal government as the regulator of commerce on the nation's navigable rivers. That power became even more important as the nation expanded westward. Unlike the rivers in the East, the waterways named after Mississippi, Missouri, Illinois and Ohio flowed largely over vast expanses of flatlands. They regularly inundated the communities along their shorelines with devastating floods.

The US Army Corps of Engineers became the primary agency responsible for establishing locks, dams, reservoirs, levees and dredging projects aimed at channeling the flows of those rivers to serve the needs of their neighboring communities. Doyle tells how governments at all levels needed to help rural and urban communities all across the country in their efforts at flood control, waste treatment and water pollution. They used debt financing and the powers of taxation and regulation to achieve what they perceived as their constituents' ends. Like any good storyteller, the author emphasizes the actions of many individuals, not just institutions, in describing these efforts.

The Source is more than just a history of America's rivers. Doyle intersperses his historical accounts with literary excursions to a towboat in the Mississippi River, a waste treatment plant in Durham, North Carolina, a cattle ranch in Oregon and various backroom debates among legislators and regulators. His concluding chapter on the rise of environmentalism and the need to restore the infrastructure of our waterways is a cautionary one. It provides an effective conclusion to this engaging story of how Americans have struggled to deal with one of Mother Nature's ubiquitous natural forces. $

Michael A. Martorelli is a Director Emeritus *at Fairmount Partners in West Conshohocken, Pennsylvania, and a frequent contributor to* Financial History. *He earned his MA in History from American Military University.*

New from Columbia University Press



"Alexander Hamilton was the architect of the American financial system that endures to this day, making his founding-era writings on topics such as the national debt, trade, foreign investment, and central banking both resonant and relevant to contemporary readers. Sylla and Cowen provide helpful historical context, but they largely let Hamilton's genius speak for itself. From short essays that resemble the modern op-ed to legal documents to his reports to Congress as Treasury Secretary, the book offers a compelling window into Hamilton's visionary thinking on economic matters."

—Robert E. Rubin, co-chair emeritus,
Council on Foreign Relations,
and former U.S. Treasury Secretary

"Hamilton's writings always impress for their clarity of argument and, especially, for their prescient vision of the future of the American economy. Thanks to Richard Sylla and David J. Cowen for reminding us of that."

—Ben Bernanke, former chairman of the Board
of Governors of the Federal Reserve System

For more information about the book, please visit **CUP.COLUMBIA.EDU**

1893 2018

125

COLUMBIA
UNIVERSITY
PRESS

CURATING GLOBAL KNOWLEDGE